Postal Regulatory Commission
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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

FIRST-CLASS MAIL AND PERIODICALS SERVICE STANDARD CHANGES, 2021	Docket No. N2021-1

NOTICE OF DESIGNATED MATERIALS, AND NOTICE OF FILING OF DECLARATION ATTESTING TO THE PROPOSED RECORD MATERIAL, FOR UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS
(June 7, 2021)

Pursuant to the Presiding Officer's Ruling Nos. N2021-1/11 (May 25, 2021) and N2021-1/16 (June 4, 2021), the United States Postal Service hereby provides this notice of designated materials, and this notice of the filing of a declaration attesting to the proposed record material, for United States Postal Service institutional witness Sharon Owens. Pursuant to the rulings, attached to this notice are: (i) a declaration of witness Owens supporting the authenticity of her designated responses to requests for admissions, interrogatories, and Presiding Officer Information Requests, including the library reference accompanying the responses; (ii) an index of library references sponsored by witness Owens; and (iii) the designated responses of witness Owens (with corrections highlighted) in alphabetical order by party name and by numerical order of request.[1]

[1] USPS institutional witness Owens did not introduce written direct testimony.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 7, 2021

POSTAL REGULATORY COMMISSION
DOCKET NO. N2021-1
DECLARATION OF SHARON OWENS

I, Sharon Owens, Vice President, Pricing & Costing, United States Postal Service, hereby declare, under penalty of perjury, that:

I sponsored Library Reference USPS-LR-N2021-1/26;

The responses to requests for admissions, interrogatories, and Presiding Officer Information Requests, which were filed with my authorization as the United States Postal Service institutional witness and which have been designated for inclusion in the record in this docket, were prepared by me or under my direction; and

If I were to respond to these requests for admissions, interrogatories, and Presiding Officer Information Requests orally today, the responses would be the same.

E-SIGNED by Sharon.D Owens
on 2021-06-07 10:37:04 CDT

SHARON OWENS

DATE: June 7, 2021

LIBRARY REFERENCE SPONSORED BY UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS SHARON OWENS

United States Postal Service Institutional Witness Sharon Owens sponsors the following library reference:

- USPS-LR-N2021-1/26 – Steps in Projecting Transportation Costs by Mode

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/1. The Postal Service did not study the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on individual mail consumers.

RESPONSE:

Denied. *See* Direct Testimony of Thomas E. Thress on Behalf of the United States Postal Service (USPS-T-5), PRC Docket No. N2021-1 (Apr. 21, 2021) at 5-34, 36-37 (examining the impact of changes to average days to delivery on Single-Piece First Class Mail); *see also* Direct Testimony of Steven Monteith on Behalf of the United States Postal Service (USPS-T-4), PRC Docket No. N2021-1 (Apr. 21, 2021), at 12-20.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/2. The Postal Service did not study the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on low-income communities.

RESPONSE:

Admitted.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/3. The Postal Service did not study the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on elderly consumers of the mail.

RESPONSE:

Admitted.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/4. The Postal Service did not study the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on rural communities or mailers.

RESPONSE:

Denied. *See* Direct Testimony of Stephen Hagenstein on Behalf of the United States Postal Service (USPS-T-3), PRC Docket No. N2021-1 (Apr. 21, 2021), at 24; USPS-LR-N2021-1-3 (title "Model Results"), file title "3_SSD_5D_Vol_Impacts_CONUS.xlsx."

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/5. The Postal Service did not study the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on individual mail consumers' future use of postal services.

RESPONSE:

Denied. *See* Direct Testimony of Thomas E. Thress on Behalf of the United States Postal Service (USPS-T-5), PRC Docket No. N2021-1 (Apr. 21, 2021), at 5-34, 36-37 (examining the impact of changes to average days to delivery on Single-Piece First Class Mail); *see also* Direct Testimony of Steven Monteith on Behalf of the United States Postal Service (USPS-T-4), PRC Docket No. N2021 1 (Apr. 21, 2021), at 12-20.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
(Revised June 3, 2021)

APWU/USPS-1/6. The Postal Service did not study the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on small businesses' future use of postal services.

RESPONSE:

Denied. *See* Direct Testimony of Thomas E. Thress on Behalf of the United States Postal Service (USPS-T-5), PRC Docket No. N2021-1 (Apr. 21, 2021), at 5-34, 36-37 (examining the impact of changes to average days to delivery on Single-Piece First Class Mail); *see also* Direct Testimony of Steven Monteith on Behalf of the United States Postal Service (USPS-T-4), PRC Docket No. N2021-1 (Apr. 21, 2021), at 12-20.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/7. The Postal Service did not study the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on Election Mail.

RESPONSE:

Denied. *See* Direct Testimony of Robert Cintron on Behalf of the United States Postal Service (USPS-T-1), PRC Docket No. N2021-1 (Apr. 21, 2021), at 17 n.12.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/8. The Postal Service did not consult with state or local election officials regarding the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on Election Mail.

RESPONSE:

Denied. *See* USPS Witness Monteith's Response to POIR No. 2, Question 19 (filed May 21, 2021); USPS Witness Monteith's Response to POIR No. 1, Question 31 (filed May 17, 2021).

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/9. The Postal Service did not study the impact of the service standard changes proposed in the Request for an Advisory Opinion in Docket No. N2021-1 on Election Mail from overseas voters, overseas military personnel, or military personnel stationed domestically away from their voting residence.

RESPONSE:

Admitted.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/10. The Postal Service did not consult in any manner with any election officials regarding the impact of the proposed services standard changes in the Request for an Advisory Opinion in Docket No. N2021-1 on Election Mail from overseas voters, overseas military personnel, or military personnel stationed domestically away from their voting residence.

RESPONSE:

Admitted in part and denied in part. Vote by mail (e.g., absentee ballots) relates to overseas voters, overseas military personnel, and military personnel stationed domestically away from their voting residence. The Postal Service discussed vote by mail with election officials, though did not specifically discuss the impact of the proposed service standard changes on overseas voters, overseas military personnel, and military personnel stationed domestically away from their voting residence.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/11. The price difference between postage for First Class Mail and postage for Priority Mail is over $6 per mail piece.

RESPONSE:

Denied. For example, a 12.5oz FCM Flat with a retail price $3.40 could be mailed as a less than one-pound Priority Mail (Retail) Zone Local 1 & 2 for $7.70, a difference of only $4.30.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/12. Local election officials in the same state will have different service standards from one another for Election Mail sent and received by their offices depending on where they are located within the state.

RESPONSE:

Denied. Service *standards* will not necessarily vary based on the location of election offices.

RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS TO FIRST REQUEST FOR ADMISSIONS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-1/13. The strategic plan entitled "*Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*" attached to this Request for Admissions as Exhibit A is a true and correct copy of the plan referenced on page 9 of the Postal Service's Request for an Advisory Opinion in Docket No. N2021-1.

RESPONSE:

Admitted.

EXHIBIT

A

DELIVERING FOR AMERICA

Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence

UNITED STATES POSTAL SERVICE ®

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LETTER FROM **THE POSTMASTER GENERAL AND THE CHAIRMAN OF THE UNITED STATES POSTAL SERVICE BOARD OF GOVERNORS**

Few organizations so thoroughly and tangibly engage the public as does the United States Postal Service.

Nearly every person in America experiences the Postal Service brand every day—by saying hello to their mail carrier on their daily rounds, passing postal vehicles on the street, visiting a Post Office or USPS.com, using Postal Service mobile applications, or simply reading their mail or opening a package at the end of the day. On any given day, the Postal Service delivers for America—from essential medicines and COVID-19 stimulus checks, to packages and election ballots.

The 644,000 women and men of the Postal Service—who live, work, and serve in every American community—represent our brand with every customer interaction and through constant dedication to our mission of universal service. As we fulfill our role of binding the nation together—as we have for 246 years—their commitment ensures that our delivery platform and services are always a trusted, visible, and valued part of America's social and economic infrastructure.

And yet, our organization is in crisis. Our business and operating models are unsustainable and out of step with the changing needs of the nation and our customers. We have seen steep annual financial losses in the billions of dollars, unmet service performance goals, and less market relevancy as consumer behaviors have changed.

In 2020, our Board of Governors, with a new Postmaster General and a newly established officer corps—composed of experienced postal executives with expert knowledge of our business and marketplace—moved quickly to address our financial and operational challenges and forge a bold vision for transformation.

With a deep commitment to preserve our mission, Postal leadership began a wide-ranging effort to address our challenges rigorously, holistically, and collaboratively to define a new high performing future. We realigned the organization to streamline operations and enable the effective planning, management, and execution of change.

The team evaluated and quantified the many compounding challenges across the postal enterprise. We dissected the dramatic shift from traditional letter mail to package delivery; underperformance in processing, transportation, delivery, and retail operations; failure to meet service performance standards; unacceptably high rates of non-career employee turnover; and a perilous and worsening financial situation—marked by $87 billion in losses over the last 14 years.

The COVID-19 pandemic led to even sharper declines in First-Class Mail and Marketing Mail and historic levels of demand for package delivery, dramatically reinforcing the urgent case for change.

We studied market research; prior internal plans and proposals; reports from the Office of Inspector

General, the Government Accountability Office and the Postal Regulatory Commission; and many white papers and documents authored by postal stakeholders. We received feedback from key customers and industry associations, our unions and management associations, and members of Congress—valuable input from a diverse set of stakeholders.

Throughout the development of this Plan, the Postal Board of Governors played an active role in representing the public interest as we sought to preserve our ability to fulfil our universal service mission while transforming our business and operations. Their collective expertise—in logistics; leading and working with unions; leading and serving on boards of large organizations; advising on finance and restructurings; and working in the political arena with political parties on both sides of the aisle—has provided a solid foundation for the Plan.

The resulting Plan—Delivering for America—establishes clear strategies to quickly achieve financial sustainability and service excellence. Our new operating model will dramatically improve service through strategies aligned to the changing needs of our customers. We will optimize our mail and package processing capabilities, improve the technology and oversight of our surface logistics network, realign service standards to enable the best use of our transportation and processing networks, strengthen our delivery network, promote measurable operating excellence, modernize vehicles and infrastructure, revitalize our post offices, enable long-term postal careers for employees, and innovate solutions and services for customers.

The Plan's strategic initiatives are designed to reverse a projected $160 billion in losses over the next ten years by achieving break-even operating performance. We can accomplish this goal with modest regulatory and legislative changes, effective use of newly acquired and existing pricing authorities, operating more efficiently across our enterprise, and by driving revenue growth through innovative customer solutions. We seek service excellence and financial sustainability that preserves our universal service mission of providing the nation with six days of mail and seven days of package delivery.

We look forward to productive discussions with our stakeholders about our goals for the future of the organization and the most effective strategies to pursue them. We will listen and learn and adapt the plan to take account of stakeholder advice and guidance, carefully considering advice from the Postal Regulatory Commission, findings from the Office of Inspector General, and feedback from our customers. We will adhere to legal, statutory, contractual, and regulatory requirements as we implement the initiatives within this Plan.

Most importantly, we recognize that our success depends upon implementing the totality of the Plan—which will occur through deliberate, well-communicated phases in the coming years—and that doing so with the broad, bipartisan support of the Congress will ensure its full and enduring impact.

We present this Plan as another important chapter for the Postal Service in our long history and tradition of changing and improving to better serve the public. We trust you will find this Plan to be convincing that a high performing, financially sustainable future for the Postal Service is both necessary and attainable.

LOUIS DEJOY
Postmaster General & Chief Executive Officer
United States Postal Service

THE HONORABLE RON BLOOM
Chair, Board of Governors
United States Postal Service

EXECUTIVE SUMMARY

The Postal Service operates as a basic and fundamental service provided by the Government of the United States to the American people.

Our basic mission is to provide prompt, reliable, and efficient mail and package shipping services to all Americans—regardless of where they live—and at affordable rates. We are expected to fulfill this universal service mission in a self-sufficient manner through revenue generated from the sale of our products and services. We constitute a fundamental part of the Nation's critical infrastructure, delivering essential services to American households and businesses.

> **"The Postal Service shall have as its basic function the obligation to provide postal services to bind the nation together through the personal, educational, literary and business correspondence of the people."**
>
> — Title 39 Section 101(a) of the United States Code

The dramatic evolution of the mailing and shipping industries over the past decade—accelerated by the COVID-19 pandemic—requires a new business model and a reorientation of the Postal Service's management, network, and processes. With consumer and public demands only expected to continue to rapidly evolve, our success as an American institution depends upon our ability to adapt to change.

Through exhaustive diagnostic analysis across the postal enterprise, we quantified the many compounding challenges that have come with long-term declines in mail volume and resulted in unacceptable financial and operational underperformance. For example, as the Postal Service's product mix shifted dramatically away from traditional letter mail toward package delivery, unreliable service performance greatly degraded customer confidence. In fact, our package volume flattened in 2019 even as rapid growth occurred in the e-commerce marketplace.

Throughout the process of developing this Plan, we also explored a wide range of opportunities to better serve our business and residential customers, and the American public. We especially examined new ways to participate more fully in the strengthening U.S. market for package delivery services, and to more fully leverage our network to better meet customer needs.

From these efforts, we determined that there is a compelling need to redesign our operating model to enable growth in our package delivery business, and that doing so would have strong operational benefits across our enterprise. In fact, the breadth of our operating model changes will improve the value and reliability of the service that we provide to our mail customers and is essential in providing the flexibility and financial stability necessary to achieve our universal service mission.

OUR PLAN DELIVERS:

1	**A modernized Postal Service capable of providing world class service reliability at affordable prices**
2	**Maintenance of universal six-day mail delivery and expanded seven-day package delivery reach**
3	**Workforce stability and investment strategies that empower, equip, and engage each employee and put them in the best possible position to succeed**
4	**Innovation that grows revenue and meets changing marketplace needs**
5	**Financial sustainability to fund our universal service mission**

High Performing Future

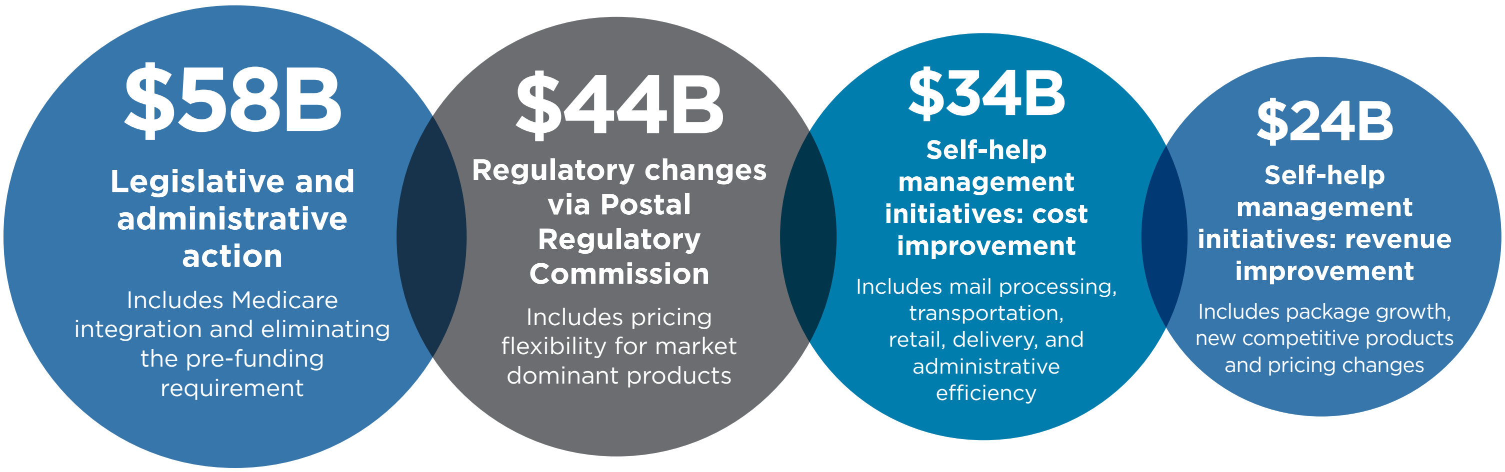
To best serve the American public and the needs of the nation in the decades to come, we envision the Postal Service performing at a much higher level in terms of the service we provide every day, the value we deliver to American commerce and communities, our pace of innovation, and our relevance at every home and business.

Our vision is to realize two central and complementary goals: Service Excellence and Financial Sustainability. Only through service excellence can we maintain the confidence and trust of the public and grow our business to fund our universal service mission. But service excellence requires investments to gain network efficiencies and innovate products and services, especially given that we have deferred many necessary investments over the past 10 years. With new self-funded investments—for which we have allocated $40 billion—we will achieve service excellence, grow our business, and achieve financial sustainability over the coming decade.

Our goal is to operate as a high performing organization with the following characteristics:

- **A strengthened public service mission** – that embraces our role as a critical part of our government's infrastructure and in binding the nation together.
- **Service standards that foster service excellence** – achieved through an optimized network providing dramatic improvements in reliability, on-time delivery, and cost-to-serve—and meeting or exceeding 95 percent on-time delivery across mail and shipping product classes.
- **A bold approach to growth, innovation, and continued relevance** – by providing customers with greater access to the Postal Service network and greater opportunity to receive same-day and next day delivery;

FIGURE 1: Total Plan Benefit



launching robust new products and services and digital experiences; spurring growth in the e-commerce economy; and strengthening the mail channel for the nation's commercial and personal needs.

- **Environmental stewardship** – continuously advancing our sustainability goals and environmentally-focused solutions that reduce greenhouse gas emissions, energy, fuel, and waste.
- **Best-in-class mail and package processing** – following disciplined operating principles, aligning operations and infrastructure with volume demand, accelerating investments in package and material handling equipment; and providing greater resiliency and adaptability to volume spikes and marketplace needs.
- **A modern, transformed network of Post Offices** – designed as go-to destinations to support community needs, providing a wider range of government and commercial services, and better aligned to customer demand.
- **A fully optimized surface and air transportation network** – in which a higher percentage of First-Class Mail and First-Class Package Service are carried on surface transportation, third party long-haul truckers are more integrated and better managed, and integrated logistics systems drive greater performance and efficiency.
- **Best-in-class delivery operations** – powered by investments in a new vehicle fleet, equipping carriers with mobile technology to improve service and tracking and optimizing routes and processes throughout last mile delivery.
- **A stable and empowered workforce** – marked by opportunity creation, well-defined career development and growth—including for non-career employees—resulting in decreased turnover and a winning culture that prizes diversity, equality, inclusion, and customer service excellence.
- **An organization structured for success** – aligned to meet marketplace needs,

Financial stability will enable investment in our people, customers, communities, and the organization—it will also preserve our ability to self-finance and avoid any need for a costly bailout, which could total as much as $160 billion.

and designed to foster clarity of purpose, accountability, flexibility, and effectiveness.

- **A supportive legislative and administrative framework** – to address unwarranted retiree health benefit and pension funding obligations, which includes redefining retiree health benefit obligations and appropriate accounting for Civil Service Retirement System funding.
- **A more rational pricing approach** – as approved by the Postal Regulatory Commission for our market-dominant products, and by more effectively aligning prices to the marketplace for our competitive products.
- **Financial sustainability and investment** – generating enough revenue to cover our operating costs and obligations, and investing $40 billion in our network, technology, and people.

By implementing the totality of the strategies identified above—and doing so in a timely manner—we project that we will operate with a positive net income beginning in 2023 or 2024 and realize break-even operations over the next ten years.

10-YEAR CUMULATIVE NET INCOME

$160 Billion

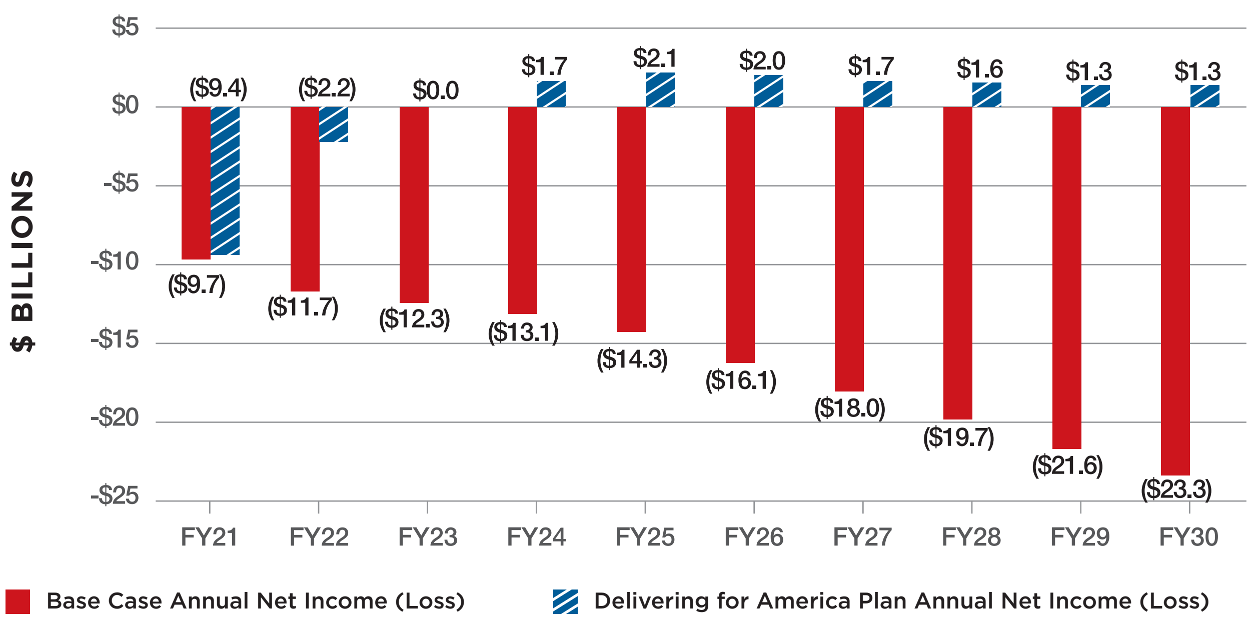
BASE PROJECTION ANNUAL NET INCOME

$0.2 Billion

NET INCOME WITH STRATEGIC PLAN

But we cannot delay implementation of core elements without degrading our ability to meet financial targets. The combination of revenue growth, cost savings, and investments in our future, combined with legislative and administrative actions, will enable the Postal Service to operate in a financially self-sustaining manner—generating sufficient cash flow to cover operating costs and ongoing capital investments while fulfilling our universal service mission for decades to come.

FIGURE 2: Comparison of the 10-Year Base Projection Net Income vs. Projected Net Income with Strategic Plan Initiatives



A CHALLENGING PRESENT

As we built this Plan throughout 2020, it was evident to us that the COVID-19 pandemic had exacerbated and highlighted the many long neglected shortcomings of our inflexible, misaligned, and underperforming business model and operating practices.

During the pandemic, gradual trends in declining mail and growing package volumes accelerated beyond all expectation, creating innumerable operating challenges that were compounded by workforce and transportation availability issues. These forces brought to the surface core operating, workforce and business model deficiencies that could not be overcome with short-term investments in personnel and other resources in order to meet basic performance goals.

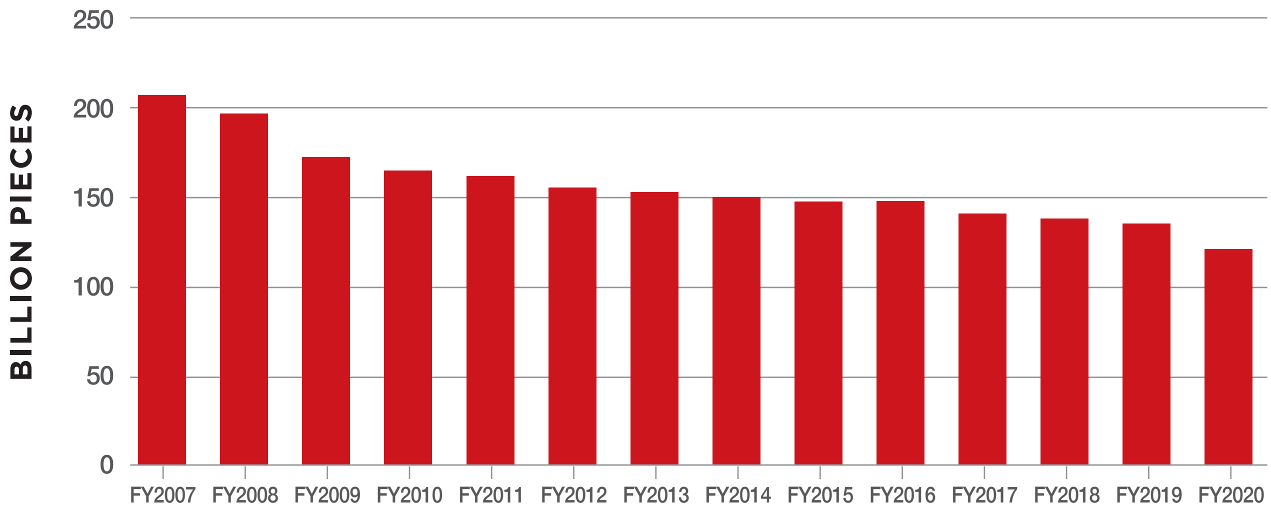
We are committed to our fundamental mission to provide timely, reliable, secure, and affordable mail and package delivery to the more than 160 million residential and business addresses we serve across the country, six and seven days a week.

The COVID-19 experience, and a decade of widening financial losses, declining service performance, loss of customer confidence, stalled innovation, and unacceptably high rates of employee turnover, gave us the conviction to build a plan that takes a comprehensive approach to the future. We methodically identified the challenges, as outlined below, and addressed each to give us a path to achieve our ambitious and interrelated financial, operational, and service performance goals for the next decade.

Mail Revenue and Volume Declines

Dramatic changes in customer demand has put downward pressure on the traditional letter and flat product volumes that we deliver to our customers' mailboxes, especially First-Class Mail volume. These sharp declines since FY2007 have

FIGURE 3: USPS Total Mail Volume (FY2007 – FY2020)



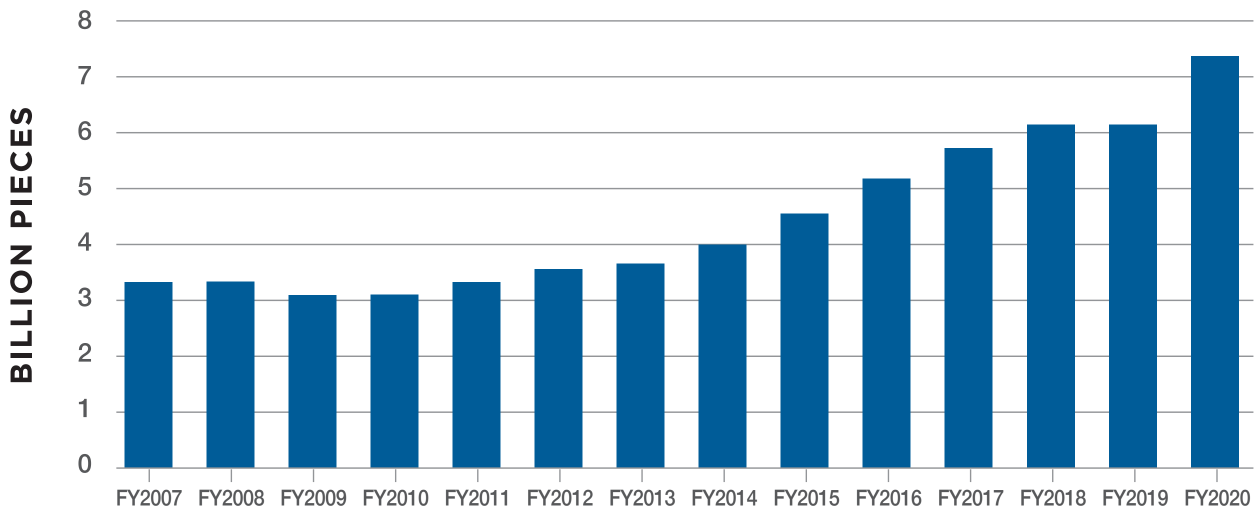
severely impacted our finances as well as our processing, logistics, and delivery networks.

- Domestic mail revenue has declined from $60.6 billion in FY2007 to $38.7 in FY2020 —a decline of over $21.9 billion (36%) or an average annual decline of 2.8 percent, including a decline of more than 8 percent during the COVID-19 pandemic in FY2020.
- Similarly, total mail volume declined by 42 percent since FY2007 (Figure 3), a decline of about 3 percent per year. During the FY2020 pandemic year alone, our mail volume declined by a steep 11 percent.
- Most concerning, First-Class Mail volume —which provides the greatest contribution towards covering the costs of maintaining our universal service network—has declined by 45 percent since FY2007.
- At the same time, every year our cost to deliver mail increased as our mail volume and revenue declined. This was driven by increased demand on our network, including the number of delivery points we serve growing on average by more than one million each year. The result has been that pieces per delivery point per day dropped from 5.6 pieces of mail and packages in FY2006 to 3.0 pieces in FY2020, reinforcing that we are delivering less mail to more delivery points each year. These trends are expected to continue in the coming decade, with total volume expected to decline by 36 percent and total pieces per delivery expected to decline to 1.7 by FY2030.
- As our mix of mail and packages continues to change, our processing, transportation, and delivery network is increasingly misaligned with the products we accept, process, transport, and deliver, because of our reliance on facilities, trucks, and delivery tools that were originally designed for much higher letter mail volume, far smaller packages, and far lower package volume.

Package Revenue and Volume Trajectory

Although Postal Service package volume have grown since FY2007, in the last three fiscal years we have not kept pace with the market's overall

FIGURE 4: USPS Total Package Volume — Billion Pieces (FY2007 – FY2020)



rate of growth for package delivery services.[1] In fact, the Postal Service's volume flattened in 2019 due to increased competition and customer in-sourcing, and lack of investment, innovation, and performance. And, the package volume growth we have experienced has not been sufficient to offset the revenue loss from declines in mail volume.[2]

- Package revenue increased from $9.9 billion in FY2007 to $21.5 billion in FY2018, slowed to $22.8 billion in FY2019, and spiked to $28.5 billion during the pandemic year of FY2020.

- As shown in Figure 4, package volume grew from FY2007 to FY2018, and flattened in FY2019. Given these trends, we had forecasted package volumes to decline in FY2020.

However as the pandemic accelerated e-commerce, our package volume jumped by 19 percent, which was ten points lower than the 29 percent market growth rate.[3] While demonstrating the vital role the Postal Service plays in meeting the nation's package delivery needs, the increased volume severely tested our processing and transportation capacity, and further degraded our ability to meet customer expectations. Unless we take action, we will continue to be challenged in meeting the nation's critical package delivery needs resulting in limited, if any, growth in our shipping business that is necessary to fund our infrastructure to fulfil our universal service mission.

[1] As measured by the PRC, our share of the package-delivery market shrank by 0.2 percent in FY2019, after an eleven-year growth trend broken only during a single year of the Great Recession (FY2011). Library Reference PRC-LR-ACR2019-10, Appropriate Share Calculation, Microsoft Excel file "PRC-LR-ACR2019-10.xlsx", tab "Competitive Growth Differential", cells I17-I28. See also Gov't Accountability Office, No. GAO-20-385, Congressional Action Is Essential to Enable a Sustainable Business Model (May 2020), at 10 ("The volume of USPS competitive products more than tripled since fiscal year 2007. This volume, however, began to decline in the second half of fiscal year 2019 due to growing competition for package delivery."); USPS OIG, No. RISC-WP-20-008, Package Delivery in Rural and Dense Urban Areas (Sept. 16, 2020), at 19 ("As letter mail declines and e-commerce rises, package delivery has taken on greater importance for the Postal Service. Postal package volume had been rising steadily until FY2019.").

[2] Former PRC Chairman Robert Taub has testified that, despite the significant growth in Postal Service package volume, that volume continues to represent only a minor portion of overall volume. Moreover, because packages' margin is lower than for letters and flats, package growth has only mitigated, and not offset, the financial harm from letter volume decline. Testimony of Robert G. Taub, Chairman, PRC, Before the U.S. Senate Comm. on Homeland Security & Govtl. Affairs, 116th Cong. (Mar. 12, 2019), at 26 ("While Competitive products volume and revenue have grown consistently in recent years, its volume only makes up 3.9 percent of the total mail volume of the Postal Service. In addition, the margin (i.e., the overall cost coverage) on Competitive products is lower than the margin for First-Class Mail. In other words, the Postal Service earns more money from First-Class Mail than it does from Marketing Mail or Competitive product parcels. The continuous decline in First-Class Mail volume and revenue seriously jeopardizes the Postal Service's ability to cover its fixed overhead costs.").

[3] Colography, Total U.S. Parcel Market Trends.

Misaligned Processing Network

Our processing network was originally designed to meet the demands of a robust, and ever-growing mail market.[4] Similarly, our facilities were located geographically and set up operationally to facilitate the timely and efficient processing of mail. As mail volume has decreased, our machines and facilities have been left under-utilized, leaving us with a physical network infrastructure that does not correspond to the current and projected needs of our customers.

- Despite record election and peak holiday volume in the past year, our utilization rate of mail sorting machines has fallen below 50 percent, as mail volume has continued to decline.
- Missed operating plans at our processing facilities also reflect our failure to adapt to current mail and package volume realities. More than half of our facilities do not meet key operating plan indicators, which means that the mail and packages they handle are not being processed on schedule.[5]
- Even under the most efficient operating scenario, a dramatically lower number of packages can be processed per employee workhour compared to the 10,000 letters and flats that can be processed per workhour.
- The footprint of our current network of facilities is inefficiently dispersed and accommodates too many disparate flows across products and classes, which drains resources, capacity, and degrades performance. The design of our facilities also limits their ability to process growing package volumes. This is due to the increased cubic space requirements of packages—which has resulted in rising processing costs[6] and declining service performance—a trend that will continue absent realignment.

644,000

WOMEN AND MEN OF THE UNITED STATES POSTAL SERVICE

live, work and serve in every community in America.

Underperforming Air and Surface Transportation Networks

Our air and surface networks are underperforming and unreliable.[7] Air transportation comes with a high price and significant risk, as we are reliant on external carriers. Additionally, our surface transportation is riddled with inefficiencies and burdensome manual processes.

- 43 percent of Priority Mail, 42 percent of First-Class Packages, and more than 21 percent of First-Class Mail are transported via air.

[4] As the United States Postal Service Office of Inspector General ("OIG") explained in a September 2020 report, given the Postal Service's history, "delivery infrastructure was primarily designed with mail in mind—from the vehicles to the facilities to the mailboxes." See USPS OIG, No. RISC-WP-20-008, at 3 (finding that "[w]hatever strategies the Postal Service employs, it must recognize both the importance of package volume to its future and the extent to which the extremes of the country require different creative approaches.").

[5] A recent OIG report determined that Postal Service operations were routinely not completed as designed, based on a review of FY2019 nationwide performance metrics. USPS OIG, No. 19XG013NO000-R20, U.S. Postal Service's Processing Network Optimization and Service Impacts (June 16, 2020), at 13-14 ("According to the Postal Service's 24-Hour Clock Indicators, it did not meet, on average, any of its target goals for completing mail processing operations on time. Of the 11 total indicators, only four were within 5 percentage points of their targets.").

[6] Id. at 5 ("[T]he Postal Service is processing, transporting, and delivering more packages as part of its mail mix, which typically costs more than letters or flats to process, transport, and deliver. This changing mail mix is helpful to understanding the Postal Service's costs.").

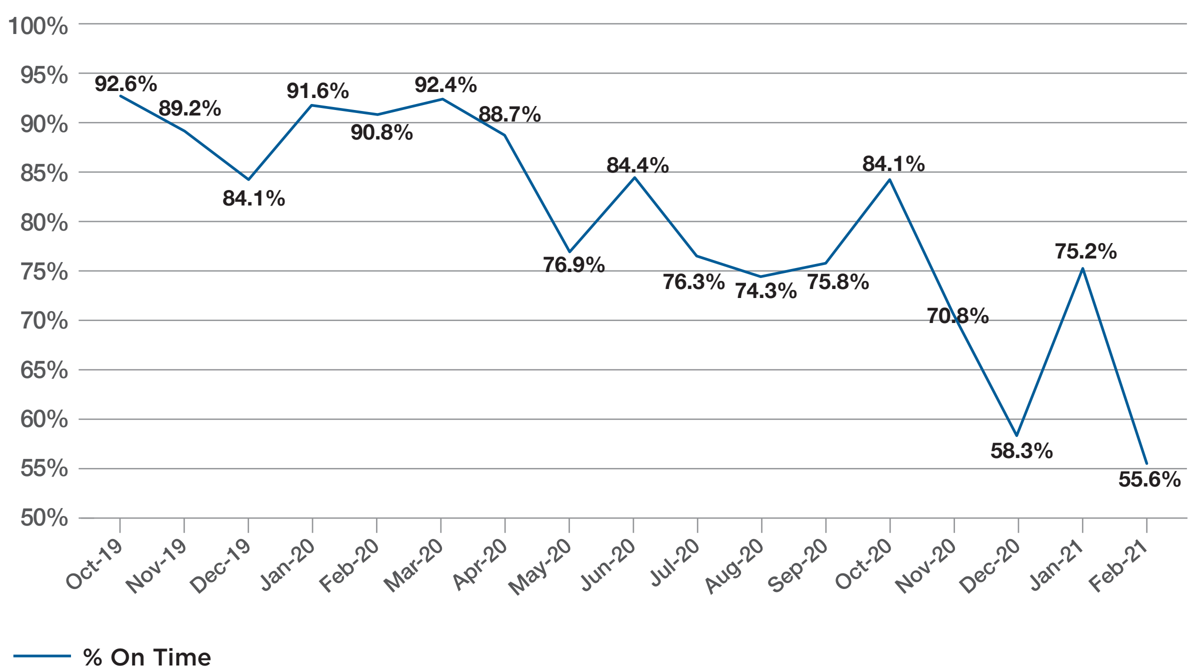
[7] See generally, USPS OIG, No. 20-144-R20, Transportation Network Optimization and Service Performance (June 5, 2020).

FIGURE 5: Air Network Largely Out of Postal Control

*Image is explanatory. It does not capture all mail flows as the USPS middle mile network is extremely complex. The image is representative of the process change that is proposed.

- The Postal Service does not own planes and is forced to rely on third parties for air transport. The complexity and constraints of the air network are contributing factors to the poor performance of First-Class Mail.[8]
- Air transport has major uncertainties and risks (weather, flight delays, etc.) that can drastically impede service performance. Figure 6 below shows that even prior to the pandemic, our air carriers did not provide consistently reliable service. Moreover, the COVID-19 pandemic caused an industry-wide shortage of air cargo capacity, which exacerbated inconsistency in reliability.[9]

FIGURE 6: Recent Air Carrier Performance



[8] See id. at 9 (explaining that the Postal Service relies on contracted air carriers to meet service standards for certain mail).

[9] For example, total flight operations decreased from 7.4 million in 2019 to 4.7 million in 2020. During the same time period, flight cancellation percentages increased from 1.8% to 6.0%. See United States Department of Transportation, Bureau of Transportation Statistics, On-Time Performance - Reporting Operating Carrier Flight Delays at a Glance, https://www.transtats.bts.gov/HomeDrillChart.asp, (last visited March 19, 2021).

- Service through ground transportation has historically outperformed air. In FY2019, First-Class Mail transported via ground transportation met 92.0 percent on-time performance while First-Class Mail transported via air transportation met 89.4 percent on-time performance.

- Mail volume declines, combined with the need for multiple networks to handle different types of mail under existing service standards have led to severely under-utilized surface transportation (less than 40% average load).[10]

- Package growth has increased the amount of cubic footage of transportation required but does not contribute as much as mail to cover costs—letter revenue per cubic foot is more than 80 percent higher than package revenue per cubic foot. These issues will be magnified as the cubic capacity of our package volume grows.

- As processing facilities have consistently failed to meet operating plans, it has resulted in increased reliance on late and extra surface trips.[11]

- We have a limited surface carrier vendor base due to our contracting requirements.

- We currently lack the advanced logistics systems that are critical to managing a fleet as large as ours. We engage in inefficient manual processes for carrier solicitation, onboarding, scheduling, payment, and performance management.

Unattainable Service Standards

A service standard is the stated delivery performance goal for a mail class or product. Current First-Class service standards range from one- to five-days, depending on the distance from origin to destination.[12] First-Class 1-day is a service standard provided for presorted mail entering at the destination facility. First-Class 2-day encompasses a radius of six driving hours from the origin processing facility.

Anything above the 6-hour drive time radius and originating and destinating within the continental United States is considered First-Class 3-day. The transportation mode for First-Class Mail 3-day is chosen based on distance, with surface being used for any origin-destination pair under 28 hours of drive time. First-Class 4- and 5-day is used for volume originating from or destinating to locations outside of the continental United States, such as Alaska, Hawaii, Puerto Rico, and other U.S. territories.

As shown in Figure 7 on the next page, we have not met First-Class Mail service targets since FY2012, and service performance has been on a downward trend since FY2017. This is particularly pronounced for First-Class Mail 3- to 5-day, which is the mail that travels the longest distances. As mail volumes decline further, service performance targets will become increasingly difficult and more costly to meet.

- The First-Class Mail 3-day service standard requires a complex and high-cost transportation network to cover vast geographic areas.

- Current service standards require 3-day delivery for any destination within the continental United States, whether the distance from origin is 300 miles or 3,000 miles.

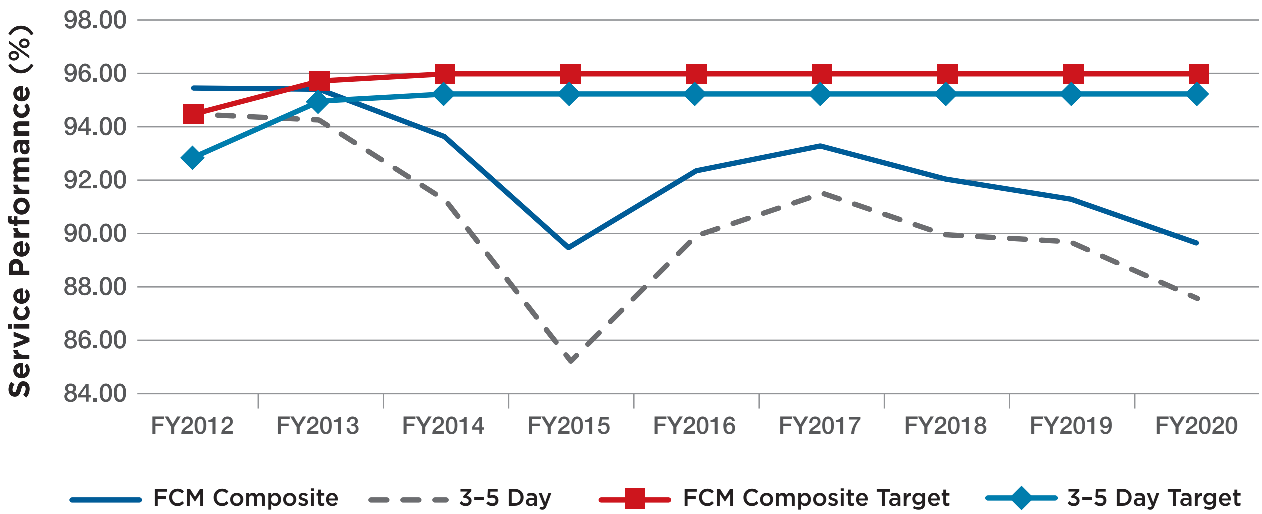
- Mail products traverse differing processing and transportation streams, which creates redundancies, multiple handlings, and under-utilization of surface transportation networks.

[10] See USPS OIG, No. 20-144-R20, at 14 (explaining that as a result of misaligned scheduling, "the Postal Service had low trailer utilization" and that in "FY2019, Postal Service trailer utilization was about 25 percent nationwide").

[11] See id. at 10 (finding that the "Postal Service routinely uses the surface and air networks to mitigate mail processing, delivery, and other delays (such as weather and traffic), resulting in additional transportation costs of over $550 million. Even with transportation's mitigation efforts, the Postal Service did not meet the majority of its service performance targets in FY2019."); id. at 11 ("When operational issues exist, there is a downstream effect that causes management to face difficult and costly decisions. They supplement regularly scheduled transportation with exceptional service.").

[12] See generally, 39 C.F.R. § 121.1.

FIGURE 7: First-Class Mail Composite and 3- to 5-day Service Standard Performance (FY2012 – FY2020)



With every additional handling, we degrade our ability to achieve ideal on-time delivery.

- Increased package volume, a dispersed processing network causing products to travel excess mileage, and an extremely distributed collection process to pick up increasingly smaller mail volume make it impossible to meet our current service standards, or do so at a reasonable cost.

Failure to Meet Service Commitments

We have failed to meet service commitments to our customers for many of our mail and package products. In particular, we have not met First-Class Mail service targets in eight years.[13] This is due to both unattainable service standards and a lack of operational precision. Processing and transportation functions do not currently occur on-schedule, resulting in delayed product to our carriers and to our customers.[14]

- For FY2020, average First-Class Mail service performance was 89.7 percent, more than six points below the target.
- First-Class Mail 3- to 5-day performance was at 87.7 percent, more than seven points below the target for FY2020.
- As First-Class Mail volume continues to diminish, service will continue to erode unless we bend the curve.
- Periodicals performance was 80.9 percent, more than 10 points below target for FY2020.
- Despite directing additional resources in FY2020 towards processing, transportation, and delivery, we were unable to meet our service commitments.[15]

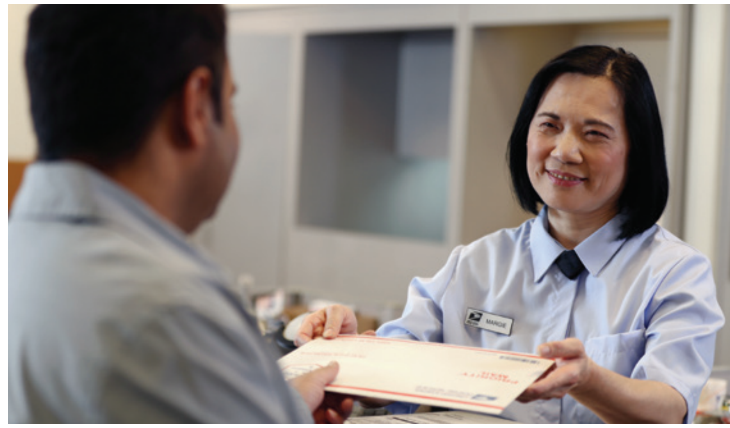
[14] See, e.g., USPS OIG, No. 19XG013NO000-R20, at 14.

[15] The OIG found that, in FY2019, "the Postal Service spent $1.1 billion in mail processing overtime and penalty overtime, $280 million in late and extra transportation, and $2.9 billion in delivery overtime and penalty overtime costs. Even with these significant additional costs, the Postal Service did not meet the majority of its service performance targets." USPS OIG, No. 19XG013NO000-R20, at 2.

Underinvestment in Delivery and Retail Operations

Our universal service delivery obligation—a commitment to deliver mail and packages to every U.S. address in every community—expands each year by more than one million delivery points as the nation's population grows and new businesses and homes are established. We have not made adequate investments to modernize our delivery footprint, vehicles, route structures, and platforms to serve this growing demand.[16]

- Chronic underinvestment has led to sub-par facilities.
- The average vehicle in our fleet is more than 28 years old, unreliable, and unsuitable for accommodating growing package volume.
- Our delivery unit footprint and route structures are not aligned with declining mail volume and growing demand for package deliveries.
- Processing and transportation delays continue to affect letter carrier schedules.
- Our carrier routes and adjustment processes are not optimized for the changing delivery environment.
- Declining mail volume and an increase in e-commerce have led to a reduction in retail traffic and revenue in our post offices. Retail revenue has decreased by $6.5 billion since 2015. While volume and revenue have declined, the Postal Service has not upgraded retail facilities or adequately aligned retail infrastructure to local demand, as operating costs continue to rise.



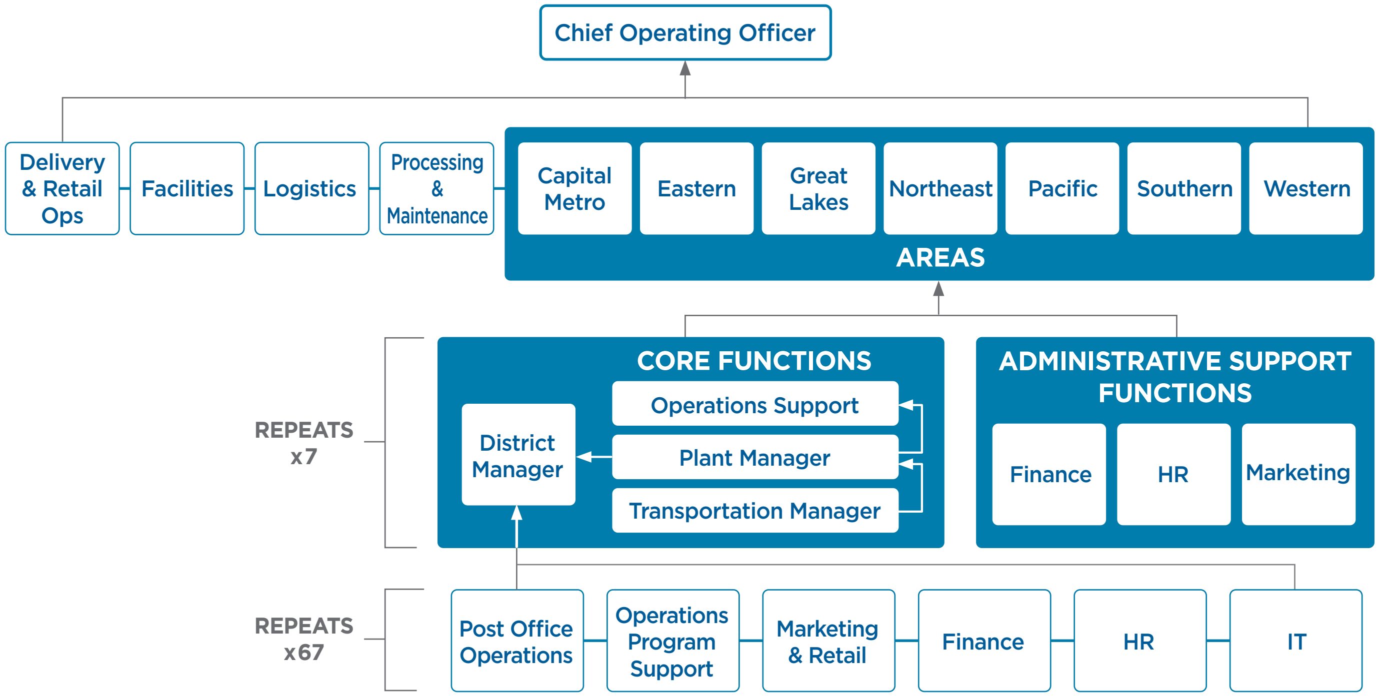
Organizational Design and Employee Turnover

For years, the Postal Service had an organizational structure that hindered our ability to adapt and evolve to changing circumstances.

- Prior to an organizational realignment in August 2020, the Postal Service operated under a structure in which core and supporting functions were managed in a decentralized fashion within each of seven regions, called Areas. Each Area's oversight included Retail, Processing, Logistics and Delivery operations, as well as business functions, such as Human Resources, Marketing, Finance, and Communications. Each Area was managed independently by an Area Vice President (AVP). This resulted in similar, parallel, structures in each of the seven Areas. The AVPs reported to the Chief Operating Officer.
- Each Area had several districts reporting to them for a total of 67 Districts across the nation. Each District leadership likewise managed both operations (Processing, Logistics, Delivery, Retail) and business functions (Human Resources, Finance, Marketing, and Information Technology).

[16] The PRC has recounted the severe cutbacks in capital investment that began in FY2012 and how the resulting delay in replacing capital stock has impacted efficiency and service. Order No. 4258, Notice Of Proposed Rulemaking for the System for Regulating Rates and Classes for Market Dominant Products, PRC Docket No. RM2017-3 (Dec. 1, 2017), at 50-52. The value of the Postal Service's capital stock continued to decline since the 2017 proposed rule. PRC, Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2019 (May 7, 2020), at 30 ("Aging capital assets and the continued restriction in capital investment resulted in a decline in net property, plant, and equipment of $0.3 billion [in FY2019 and] a net decrease in fixed assets of $8.3 billion [since FY2009]."). The Postal Service's reduction in capital spending is out of step with other delivery providers. USPS OIG, No. RARC-WP-16-009, Peeling the Onion: The Real Cost of Mail (Apr. 18, 2016), at 14-15 ("On average, the Postal Service has decreased its annual capital expenditures to the tune of almost 16 percent annually the last 8 years. UPS has also decreased its annual capital investments but at a much smaller pace, while FedEx has continually increased its capital spending 2.3 percent annually on average.").

FIGURE 8: Previous Organizational Structure



This structure created leadership roles where the range of responsibilities was simply too broad, making it difficult for one leader to execute strategies across all mission critical functions. This structure also inhibited the Postal Service's ability to effectively pursue integrated, nationwide operating initiatives at a necessary level of consistency and precision.[17]

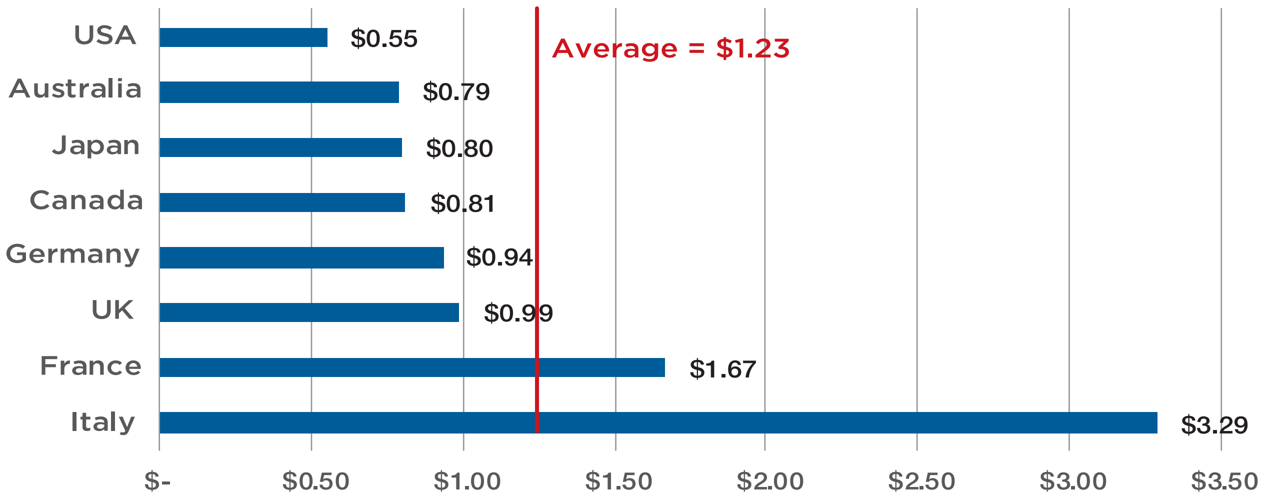
- Years of chronic financial pressures, and under-investments in our workforce have taken a toll on our frontline supervisors and non-career employees. The Postal Service has an extremely high attrition rate among non-career employees.[18]
- In FY2020, despite having hired more than 200,000 employees to fill staffing voids, we still did not meet our service standard targets.
- In 2016, the Postal Service established National Performance Assessment (NPA) targets for non-career employee turnover. Even with a low target of 36 percent, we have not been able to meet our non-career employee turnover reduction target.[19]

[17] See, e.g., USPS OIG, No. 19XG013NO000-R20, at 15 (discussing how inadequate oversight caused decreased operational efficiency in some facilities); USPS OIG, No. 20-292-R21, Operational Changes to Mail Delivery (Oct. 19, 2020), at 13 (explaining that communication issues for certain operational initiatives resulted in "confusion and inconsistent application across the country").

[18] The Postal Service needs a strong non-career workforce to provide flexibility, supplement the regular workforce, and reduce staffing costs. USPS OIG, No. 19POG001SAT000-R20, Effectiveness of the Postal Service's Efforts to Reduce Non-Career Employee Turnover (Feb. 12, 2020), at 1; USPS OIG, No. HR-AR-17-002, Non-Career Employee Turnover (Dec. 20, 2016), at 6. However, for years attrition rates for non-career employees have been unsustainable and have led to unnecessarily high costs to hire and onboard replacements. USPS OIG, No. HR-AR-17-002, at 5. OIG has explained that a comprehensive strategic plan for recruiting and retaining non-career employees is essential to "ensure management consistently focuses on reducing noncareer employee turnover, provides better oversight, and ensures best practices and feedback are shared." USPS OIG, No. 19POG001SAT000-R20, at 7; USPS OIG, No. HR-AR-17-002, at 2.

[19] See USPS OIG, No. 19POG001SAT000-R20, at 1 (finding that the Postal Service did not meet the NPA non-career turnover goal for Fiscal Year 2018 or 2019).

FIGURE 9: Comparison of Price for Domestic First-Class Mail Letter Equivalent Postage Across Foreign Posts (Nominal USD)



Note: Published prices and conversion rates as of 10/14/20

Pricing Authority

The Postal Accountability and Enhancement Act (PAEA) of 2006 capped price increases for mailing services at the Consumer Price Index (CPI). It also required the PRC to evaluate the price cap system 10 years after the date of enactment (i.e., December 2016), and to modify or replace the system if it was not meeting the objectives of the law.

In December 2017, one year after the PRC's review began, the PRC recognized that the price cap was a barrier to financial stability.[20] However, it was not until November 2020 that the PRC announced changes to the price cap system to allow the Postal Service more flexibility in establishing prices for mailing services.[21] For the past 14 years, we have not had any pricing authority to respond to changing market realities.

Had the Postal Service been able to raise prices above CPI, we would not be in such a financial state. Since 2006, based on the density rate authority of the recent PRC ruling, we would have generated $55 billion dollars in cumulative gross revenue.

> **"Since 2006, based on the density rate authority of the recent PRC ruling, we would have generated $55 billion dollars in cumulative gross revenue."**

Retirement Related Expense

We participate in three retirement-related plans: Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), and Federal Employees Health Benefits Program (FEHBP). The first two are pension plans, and the third provides retiree health benefits (RHB), which

[20] Order No. 4257, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, PRC Docket No. RM2017-3 (Dec. 1, 2017), at 165-71.

[21] Order No. 5763, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, PRC Docket No. RM2017-3 (Nov. 30, 2020).

are funded through the Postal Service Retiree Health Benefits Fund (PSRHBF).[22] All three plans are administered by the Office of Personnel Management (OPM), in conjunction with the U.S. Treasury.

Our current mandates result in onerous retirement-related expenses. Since FY2007, these expenses have totaled $153 billion. In FY2020 alone, they were $11.6 billion, or 14 percent of our total expenses. Figures include RHB premiums, normal cost and amortization, FERS normal cost and amortization and CSRS amortization. The remainder of this section provides details of the system that creates these burdensome expenses.

Mandate to Prefund RHB

- Since Congress passed the PAEA in 2006, we have been required to prefund RHB through payments to the PSRHBF, even though other private and public employers are not subject to such a prefunding mandate.[23]
- Currently, 6.4 cents of every revenue dollar we earn is expensed on retiree healthcare.
- In FY2020, the total accrual for normal cost and amortization payments for RHB was $4.7 billion.
- Like a private organization, we are expected to self-fund the program that provides benefits to our retirees. However, almost no other organizations—public or private—are required to pre-fund their RHB, as we are.

Lack of Medicare Integration

- We and our employees pay taxes into Medicare —with $35 billion in combined payments since 1983, we are the second largest contributor into Medicare—yet unlike virtually any other entity that offers and funds RHB, we are not permitted to make Medicare enrollment mandatory for our retirees who receive RHB.[24]
- Despite being the second largest federal contributor to Medicare, we are not realizing the full benefits of the program.
- The FEHBP system is not fully integrated with Medicare. About 24 percent of Postal retirees do not enroll in Medicare Part B, placing the full onus of their retirement health funding on the FEHBP.

CSRS Funding Obligations

- In 1971, when the Post Office Department was converted into the Postal Service, we were required to keep most of our workforce enrolled in CSRS.
- OPM apportions the cost of CSRS benefits for employees that worked at both the Post Office Department and the Postal Service between the Treasury and the Postal Service. The method that OPM current uses for this apportionment is unfair and benefits the rest of the federal government at the expense of the Postal Service.[25]

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[22] FEHBP also provides health benefits for active employees, which are funded by the Postal Service.

[23] GAO and USPS OIG have documented the overwhelming extent to which other employers are not required to and do not provide RHB, let alone prefund it, as well as the strategies that the small and shrinking minority of prefunding employers use to reduce their liabilities. GAO, No. GAO-18-602, Postal Retiree Health Benefits: Unsustainable Finances Need to Be Addressed (Aug. 31, 2018), at 10-15; USPS OIG, No. FT-MA-12-002, Pension and Retiree Health Care Funding Levels (June 18, 2012), at 3-4.

[24] A Kaiser Family Foundation survey found that Medicare integration is "[t]he most common arrangement" for employer-provided RHB, to the point where RHB for Medicare-eligible employees is assumed to be merely supplemental to Medicare as a matter of course. And 47 states integrate their RHB with Medicare, while the remaining states do not cover Medicare-eligible retirees at all. Frank McArdle et al., Retiree Health Benefits at the Crossroads (Kaiser Family Found. 2014), at 3-4. See also Gary Claxton et al., Employer Health Benefits: 2020 Annual Survey (Kaiser Family Found. 2020), at 172 (contrasting public- and private-sector RHB's role as "a crucial source of coverage for people retiring before Medicare eligibility" with its role as "an important supplement to Medicare" for Medicare-eligible retirees, "helping them pay for cost sharing and benefits not otherwise covered by Medicare").

[25] The USPS OIG and actuaries engaged by the PRC have opined that the current approach is unfair. USPS OIG, No. RARC-WP-18-009, Update on the Postal Service's Share of CSRS Pension Responsibility (May 7, 2018), at 7 (the current allocation method is "disproportionate"); Segal Group, Report to the Postal Regulatory Commission on Civil Service Retirement System Cost and Benefit Allocation Principles (June 29, 2010), at 1 (reallocating the CSRS responsibility is a matter of "[f]airness and logic").

- Since 1971, every time those employees received a pay increase, their CSRS pension benefits grew in value, including the benefits they earned while working for the Post Office Department.

- However, Treasury pays only those benefits which were accrued up to 1971. We pay for all increases in pension benefits resulting from pay increases made after 1971, even though the Postal Service was not given direct control over wage increases or pension costs. This methodology is flawed and fails to reflect modern actuarial principles typically employed in the private sector for the allocation of pension liabilities.

- A 2003 law, as well as the PAEA, required the use of generally accepted actuarial practices and principles in determining the CSRS liability of the Postal Service, including the use of dynamic assumptions to account for employees' anticipated future pay increases. However, OPM has applied these assumptions only to the Postal Service share of the costs. Our CSRS funding obligations increase each year, while the federal government's obligations remain unchanged.

Financial Losses

Despite our mandate to be financially self-sufficient, in FY2020, the Postal Service recorded a net loss of $9.2 billion, adding to 14 years of losses totaling $87 billion as shown in Figure 10. Absent substantial changes, our financial losses will continue to grow, and our ability to invest in the future of the organization will continue to be severely curtailed.

- The Postal Service has had to substantially curtail investments to preserve liquidity, leading to prolonged underinvestment in our infrastructure and network and a resultant failure to address changing market needs.

- Our long-term financial sustainability is burdened by more than $152 billion in unfunded liabilities, including unfunded liabilities for our retirement-related accounts, as of September 30, 2020.

- Our existing payment obligations greatly exceed our cash balance; if we were to fulfill these obligations, we would be financially insolvent.

FIGURE 10: Postal Service's Financial Losses Since PAEA Enactment

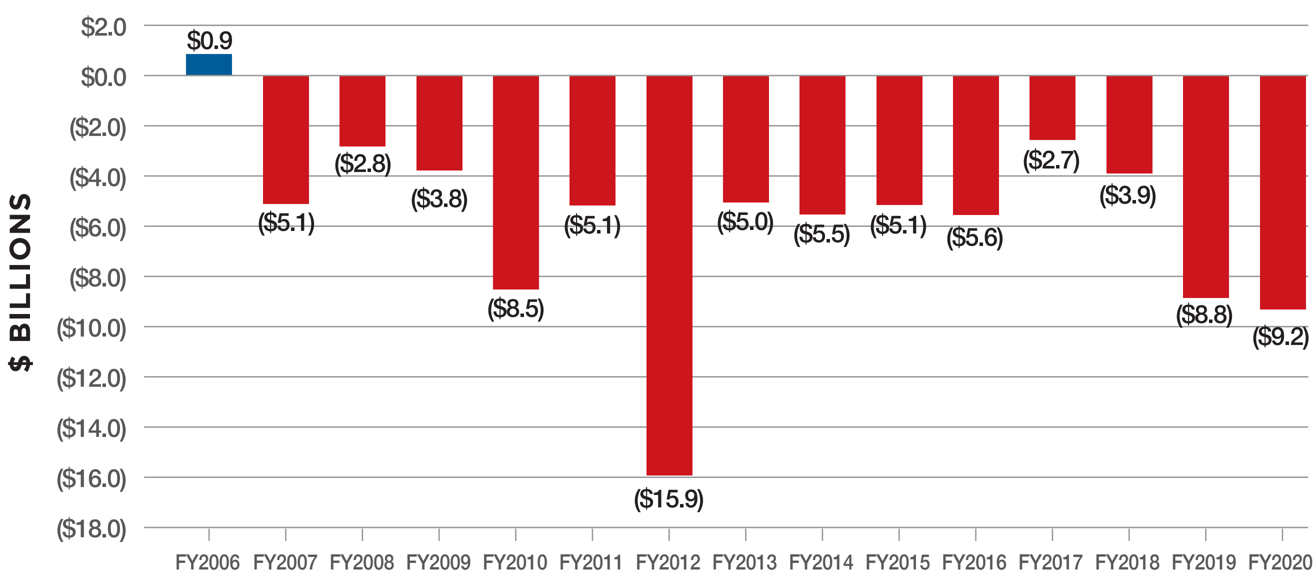
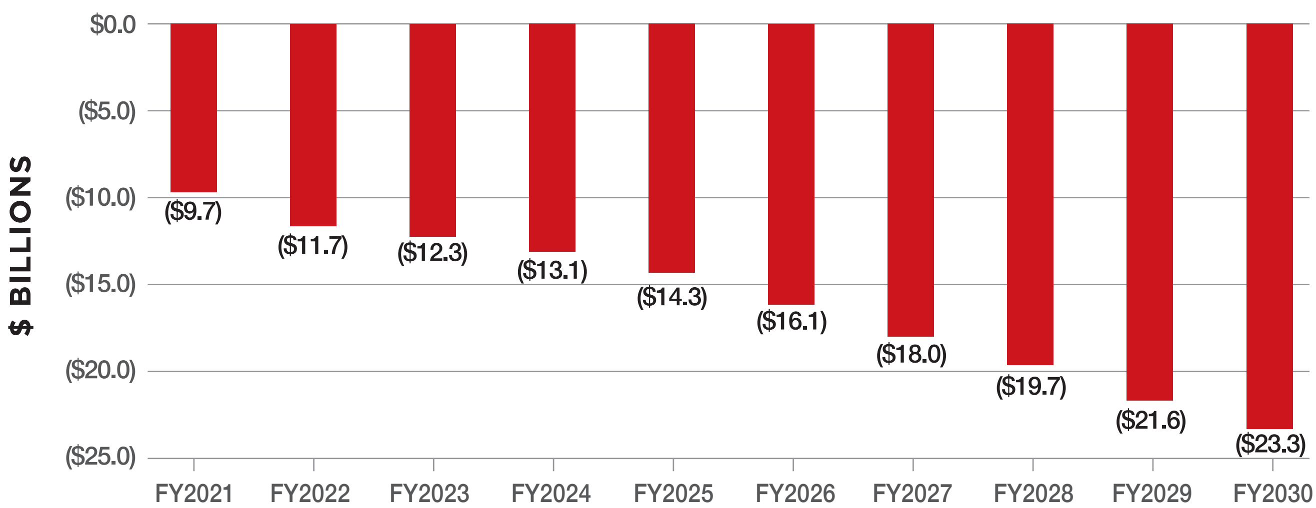


FIGURE 11: Postal Service's Projected Financial Losses With Status Quo Business Model, FY2021 – FY2030



- We forecast a net loss of approximately $160 billion over the next ten years, and a negative cash balance of the same size if we pay our projected retirement-related obligations as shown in Figure 10, under the status quo.

COVID-19 Impacts and Implications

The COVID-19 pandemic significantly exacerbated our long-standing financial, operational, and service performance problems.[26] The dramatic impacts of the global pandemic demonstrated the degraded state of our processing, transportation and delivery network due to underinvestment in package processing machines, logistics systems, and vehicles capable of carrying larger package volumes.

- **Employee Availability:** The cumulative number of employees quarantined reached 122,913 out of 644,000, and our non-career employee turnover rate of 40 percent profoundly impacted our service performance.
- **Transportation:** An economy-wide logistics upheaval—including scarcity of airplane and truck capacity, and the industry competition for both of these transportation modes—directly disrupted our supply chain and transportation resources and impacted our ability to deliver throughout 2020 and the peak holiday season.
- **Hastened shift in mail/package composition:** An existing trend in the decline in First-Class Mail was forced into steeper decline by the pandemic. This had both financial and operational impacts. At the same time, package volume increased due to e-commerce

[26] In its review of mail service during the early months of the pandemic, OIG found that the pandemic caused reduced service performance for most mail products due in large part to the increased package volume and lower employee availability. USPS OIG, No. 20-275-R21, Mail Service During the Early Stages of the COVID-19 Pandemic (Jan. 4, 2021), at 2. Employee availability issues also magnified the impacts of pre-existing staffing shortages due to hiring and retention challenges. Id. at 16. "When employee availability significantly decreases and volume significantly increases as it did during the pandemic, it creates significant mail processing challenges which affects processing and dispatching the mail to delivery units to meet service performance standards." Id. at 11. It also prevents customer service operations from meeting scheduled mail distribution to carrier routes, and ultimately results in extra trips and late mail arrivals. Id. at 17-18.

and social distancing.[27] For a logistics and delivery operation dependent on the correct complement of people, plants, volume-relevant machinery and transportation, this shift has further stressed an already misaligned and outdated mail-focused network.

- **Peak:** Our 2020 peak season saw an unprecedented 40 percent increase in our network package volume, including a 102 percent increase in oversize packages, which had severe impacts on our capacities in processing and transportation.

- **Carriers:** Our carrier network performance remained high, consistently delivering to over 160 million addresses. However, constraints in our processing and transportation networks prevented timely and consistent arrival of our products to our delivery units, impacting our ability to serve our customers.

Many of the profound changes in consumer behavior and American commerce arising from the COVID-19 pandemic in 2020 and 2021 are expected to continue in the coming decade — including growth in the e-commerce marketplace, and greater consumer demand for package deliveries. While this dynamic will create strong opportunities for the Postal Service to be even more relevant and advance the achievement of our public service mission, it also requires substantive changes to our operating model to accommodate the needs of the public. Addressing the breadth and depth of these challenges is the foundation for our Plan to create a high performing Postal Service.

[27] OIG has noted that package volume has substantially increased in response to the COVID-19 pandemic. Specifically, they note that "national package volume from March through May 2020 increased by about 466 million (30 percent) when compared to the same period last year" and that "[t]he nationwide package volume during May surpassed the package volume of the holiday peak season during October – December 2019 by about 21.6 million packages." Id. at 8.

A HIGH PERFORMING FUTURE: KEY STRATEGIES

A Bold Approach to Growth, Innovation, and Continued Relevance

THE MARKET

The package market has experienced unprecedented growth as depicted in Figure 12, and this growth is projected to continue for years to come. We estimate the U.S. parcel market to grow 6 to 11 percent annually from 2020 to 2025. Online sales have surged while shipping durations have been reduced. In FY2020, shipping customers selected 1- or 2-day service for 72 percent of their parcel shipments.[28] We estimate that this could be as high as 90 percent by 2025.

Another notable trend is that shoppers want to buy local. Local small businesses, along with regional and national brands, want access to efficient shipping services in local communities.[29] In FY2020, 3.1 billion of sampled ground volume originated and destinated within 150 miles, with approximately 50 percent staying within the local market.[30] As merchants adapt to e-commerce buying patterns, later acceptance within local markets is also becoming more important.

LAUNCH USPS CONNECT TO IMPROVE ACCESS TO DAILY DELIVERY NETWORK

We will fully utilize our unmatched logistics network and infrastructure of 21 Network Distribution Centers (NDCs), more than 250 Processing and Distribution Centers (P&DCs), more than 18,000 Delivery Units (DUs) and more than 30,000 Post Offices to connect every person, business and community across the

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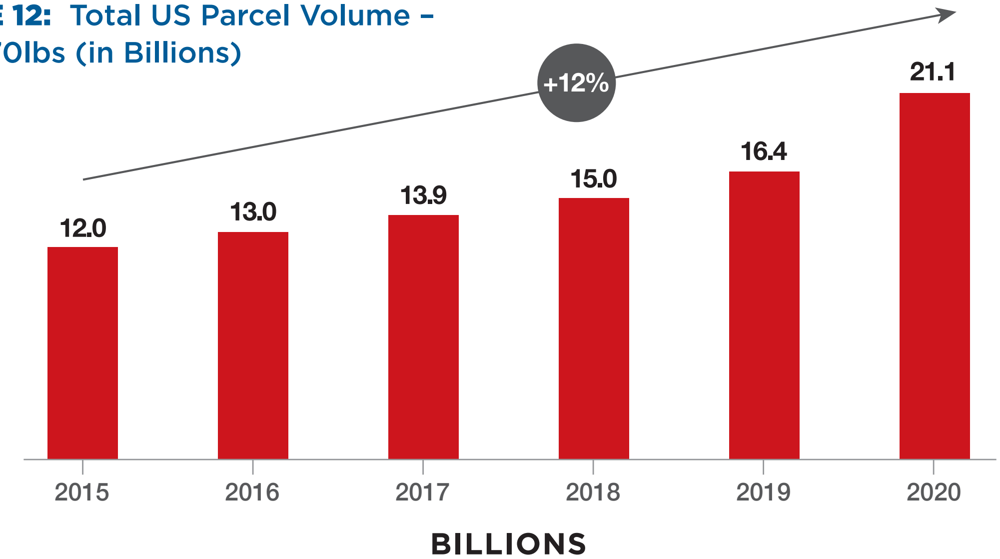
[28] Colography origin view of volume FY2020

[29] Microbusinesses, with fewer than 10 employees, are vital to the U.S. economy and the Postal Service is often the carrier of choice for these customers. USPS OIG, No. RISC-WP-19-008, From Home Office to Post Office: Improving Microbusiness Engagement with the U.S. Postal Service (Sept. 4, 2019), at 5. OIG has found that while price is a key driver when these consumers are selecting a carrier, other aspects of reliability are equally critical, including reliable delivery time expectations. Id. at 6. Convenient drop-off locations were also a "top factor" when selecting a carrier and the Postal Service was rated "as better than the competition on the convenience of drop-off locations." Id. at 6-7.

[30] Colography CY2020

FIGURE 12: Total US Parcel Volume – under 70lbs (in Billions)



country. Over the next 10 years, we will enhance the local, 1- to 2-day, and 2- to 5-day package services we provide to improve our relevancy and competitiveness across the e-commerce landscape.

We will do so by employing three key strategies:

1. Expand access across our delivery units for local entry of packages for same day and next day delivery.
2. Extend access across NDCs and P&DCs to grow our 1- to 2-day package delivery with improved, reliable, and competitive ground products.
3. Shift First-Class Package Service to an expanded ground network to improve on-time reliability and cost to serve.

These strategies will help us continue to serve as America's critical delivery infrastructure, shipping everything from essential medicines and other consumables and shoring up the resilience of our nation.

These service offerings will be bundled through USPS Connect, a diverse suite of scalable and customizable solutions to connect businesses, large and small, to urban and rural communities across the nation. Through the USPS Connect suite of solutions, we will offer innovative value-added services, a cadre of expert resources, and a shared postal retail footprint for cobranding opportunities that can be leveraged to promote our customers' brands and the solutions they provide.

We will expand our core package products, namely Priority Mail, Priority Mail Express, First-Class Package Service, and Parcel Select to offer a wide diversity of business solutions for micro to large businesses with same-day, next-day and 2- to 3-day options.

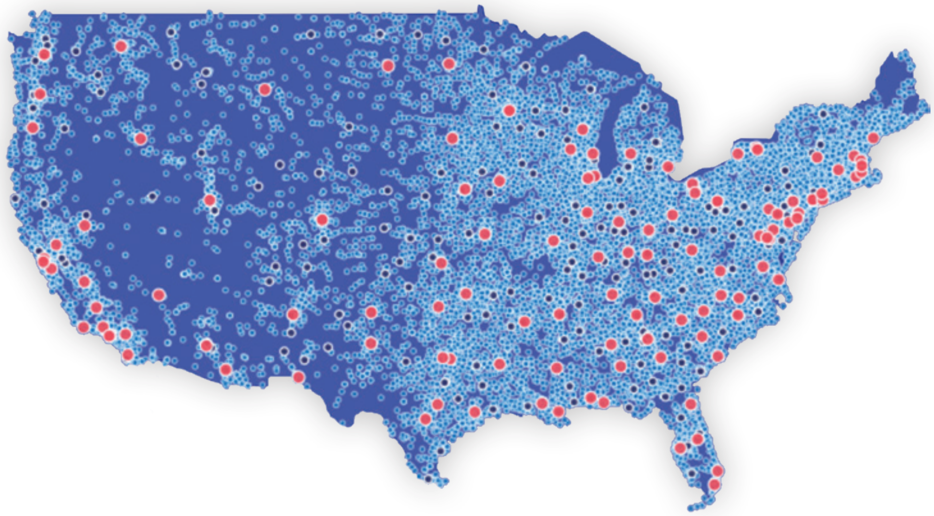
- USPS Connect Local: Provide neighborhood businesses access to local drop points and local services for same day or next day delivery.
- USPS Connect Regional: Provide high volume shippers access to our unparalleled network of distribution centers for 1- to 2-day delivery.
- USPS Connect National: Provide national shippers access to our extensive network of distribution centers to offer a diverse suite of same day, next day, and 2- to 5-day delivery services.

FIGURE 13: Powerhouse Network and Logistics Infrastructure – Distribution centers, cross-dock facilities, Delivery Units, and retail locations capable of same day to 1- to 2-day service

Future State of the Network:

Through strategically placed distribution centers, businesses can reach up to 90 percent of the population in one day and more than 95 percent of the contiguous U.S. population in two days.

Through our retail and delivery networks, businesses can reach over 160 million addresses every day, six to seven days per week.



- USPS Connect Returns: Provide an effortless returns experience with convenient label printing, pickup and packaging options.
- USPS E-Commerce Marketplace: Provide a branded online storefront for businesses to gain access to the billions of visitors on usps.com with streamlined product management, payment and checkout capabilities.
- Provide Innovative Value-Added Services and Toolkits to simplify and complete the shipping experience: enhanced returns, co-branded packaging, Informed Delivery package campaigns, Every Door Direct Mail, and carrier pickup.
- Provide Shared Footprint to boost brand presence: digital signage at Post Office, interactive retail kiosks, Main Street microsites, and virtual main street hubs.
- Provide expert support to guide businesses to success: Postmaster Partnerships, Marketing and Sales Support, and Strategic Services Support.

WHAT OUR BUSINESS CUSTOMERS SHOULD EXPECT:

- **A strengthened postal infrastructure that delivers at least 95 percent of all mail and packages on-time, at all times of the year**
- **A faster pace of innovation to drive growth and opportunity across the mailing and shipping markets**
- **E-commerce solutions that broaden access to the postal network, with more options to provide same-day, next-day, and two-day service to consumers**
- **Greater total value for the mailing and shipping investment**

STRENGTHENING THE VALUE OF MAIL

We intend to drive greater value for the sender by developing new tools that leverage mail data and enable better integration with digital media channels, and by providing new programs, resources, and offerings designed to enable greater use of the mail by businesses of all sizes.

This includes the continued enhancement of our Informed Delivery platform, which currently has 37 million subscribers covering 28.5 million households, where customers can preview mail and packages to be delivered that day.

Additionally, mail is a uniquely powerful tool for reaching consumers, especially in combination with other media channels—with direct mail accounting for nearly ten percent[31] of the nation's total marketing spend—we will continue to invest in our Informed Visibility data platform and other programs to drive value for the sender and receiver of mail.

Initiatives include:

- **Mail promotions and incentives** to encourage new technologies and effective integrated mail and marketing campaigns.
- **Learning modules and content on usps.com** that communicates to marketers, businesses, and individuals the value and effectiveness of mail and highlights how mail fits in an omni-channel campaign, the integration of the physical and digital, best practices, and facts on the power of mail.
- **Integration of data** to better target and retarget consumers and trigger other aspects of marketing campaigns.
- **Education of the next generation of marketers** on the value of mail and omni-channel campaigns through outreach to and collaboration with colleges and educational organizations.

As we continue to invest in the mail channel, we will work closely with the supply chain and America's marketing and business owners to promote and enhance their ability to use the mail to support their business needs and communicate with customers.

Service Standard Changes to Improve Reliability

The Postal Service sets standards for mail delivery so that customers and mailers can expect consistent and predictable delivery. However, as noted above, we have not met current targets for First-Class Mail composite or First-Class Mail 3- to 5-day service standards over the past eight years. The current standards do not reflect dramatically declining mail volumes, and require the Postal Service to use complex, high cost and unreliable transportation networks. They are simply unsuitable for setting realistic expectations for timely and reliable mail delivery in today's environment.

Informed Delivery gives customers a daily preview of their mail.

[31] Winterberry 2020 Forecast.

FIGURE 15: Impact of Proposed FCM Service Standard Change – Days

VOLUME: % of Total FCM (letters & flats)
Current Service Standards vs. Proposed with 5-Day

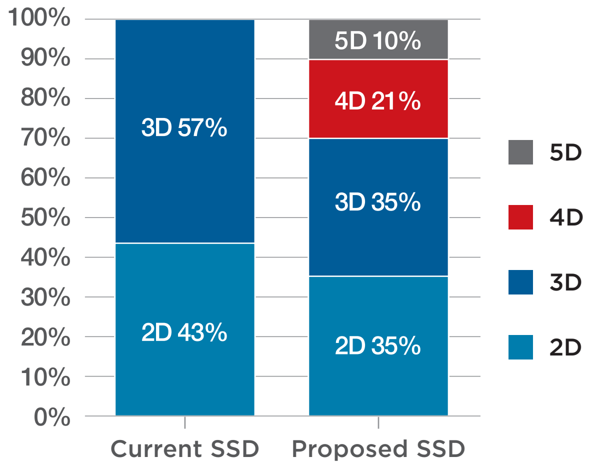
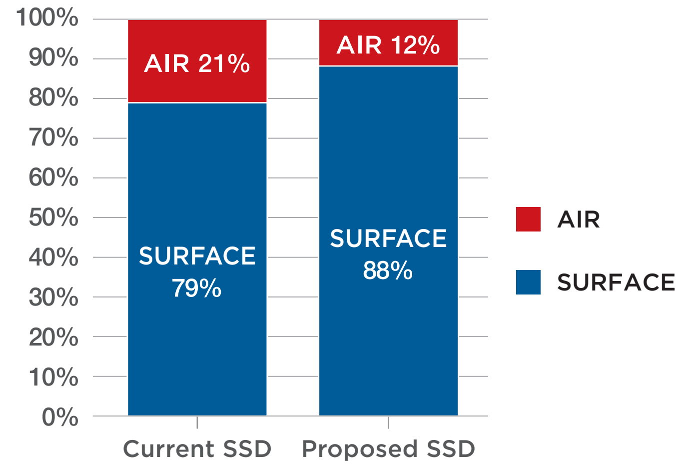


FIGURE 16: Impact of Proposed FCM Service Standard Change – Network

MODE IMPACT: % of Total FCM Volume (letters & flats)
Current Service Standards vs. Proposed with 5-Day



Note: Figures in the charts above are rounded and therefore may not add up to 100%.

Furthermore, the cost to maintain the current, unattained service standards will continue to increase as mail volume continues to decrease. The need to ensure reliable service, while improving operational efficiency and precision, requires that these standards be updated.

Our Plan is to modify existing service standards for First-Class Mail Letters and Flats from a current 1- to 3-day service standard within the continental United States to a one-to-five-day service standard. The principal impact of the proposal would be to enable 43 percent of that portion First-Class Mail which is currently transported through the air to shift to surface transportation. This will also require adjustments to the service standards for full network Periodicals (which travel with First-Class Mail). The Postal Service will seek public comment through the formal rulemaking process and will request an advisory opinion from the PRC concerning this proposed change before it is implemented.

The following is a summary of the impacts of the new service standards:

- Service standards for Commercial First-Class Mail entered at a local facility will not change.
- First-Class Mail traveling within a local area (up to a three-hour drive time) will not experience a service standard change and would still be delivered within two days.
- 61 percent of current First-Class Mail volume and 93 percent of current Periodicals volume will stay at its current standard.
- 81 percent of current First-Class 2-day volume will retain its two-day standard. Overall, 70 percent of First-Class Mail volume would receive a standard of one to three days.
- Current First-Class 3-day volume will be subject to a 3-, 4-, or 5-day service standard, depending on the distance between origin processing facility and destination processing facility.
- Of the current First-Class 3-day volume, 47 percent will remain three-day, 36 percent will move to 4-day, and 17 percent will move to 5-day.

Aligning service standards and adopting best practices from across the logistics industry will dramatically improve the reliability of service we provide to our customers and will similarly drive greater efficiencies.

In addition, we will also propose to adjust the service standards for First-Class Packages to enable a greater percentage of that volume to be moved by surface transportation. The Postal Service will also request an advisory opinion from the PRC concerning this proposed change before it is implemented.

Service standards changes will allow us to move First-Class Mail and First-Class Packages to a more predictable and reliable surface network. Moving First-Class Mail and First-Class Package volume from air to surface will:

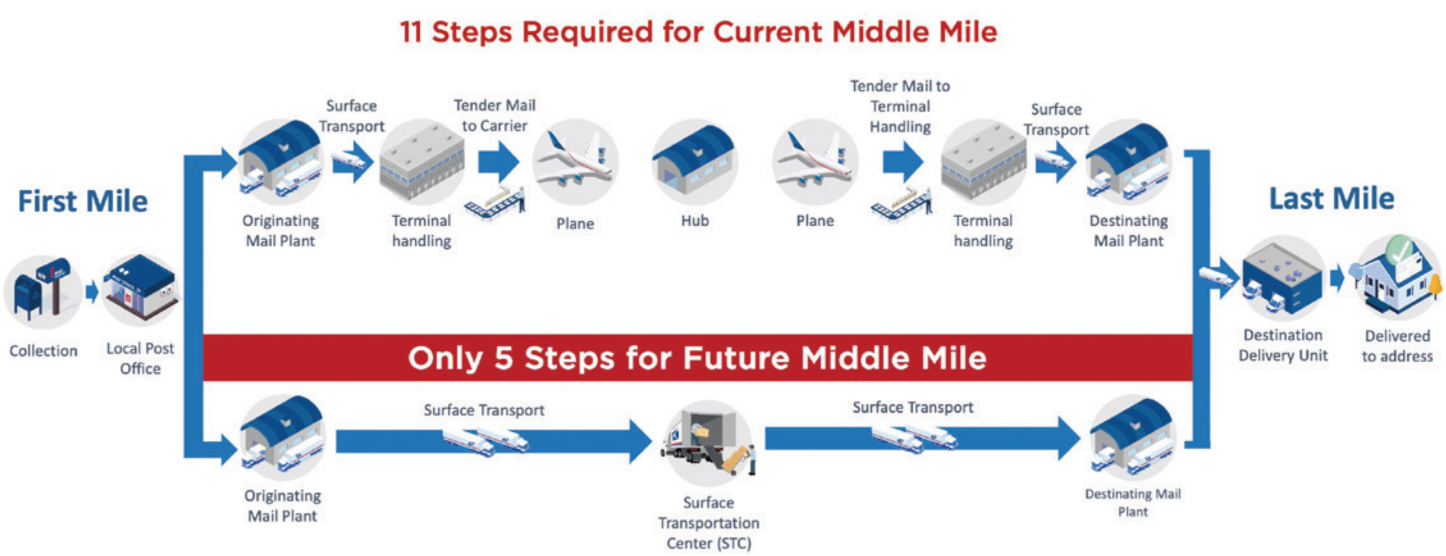
- Reduce the total number of touches for each mail piece and package to improve service reliability and reduce cost, as shown in Figure 17.
- Improve the utilization of trailers transported by surface.
- Eliminate redundant transportation networks.

Service standard changes will enhance the reliability and predictability of the service we provide, while providing a platform to improve operational efficiencies—which is especially important given the significant reduction in the amount of First-Class Mail that enters the postal system. Becoming more efficient allows us to keep our costs at reasonable levels and ensure affordable postage rates. These changes will also enable further optimization of our network and product offerings. **Overall, updated service standards will position us to achieve significant cost savings and provide service that meets or exceeds 95 percent on-time reliability.**

Best-in-Class Mail and Package Processing

To fully embrace the opportunities of today's economy and strengthen the service we provide to our mail and package customers, we will transform our processing and logistics network to become scalable, reliable, visible, efficient, automated, and digitally integrated.

FIGURE 17: Simplified Transportation Network for Increased Reliability



ADOPT DISCIPLINED OPERATING PRINCIPLES

We will stabilize and recalibrate the operating plans at our facilities to be achievable, predictable and efficient by adopting best practices. Our operating plans will be optimized to match around equipment sets and actual volumes of mail and packages, fostering more efficient, predictable, and precise performance.

PROVIDE THE RIGHT WORKFORCE COMPLEMENT TO PROCESSING FACILITIES

We will update our processing complement modeling procedures to ensure optimal employee allocation. This will align our workforce with our operating plans, reduce the overtime demand on employees, achieve predictability and precision, and improve employee engagement and retention.[32] This initiative has already started with the conversion of more than 10,000 non-career employees to career status initiated in January 2021.

ACCELERATE INVESTMENT IN PACKAGE SORTING AND MATERIAL HANDLING EQUIPMENT

As we expand our role in the e-commerce marketplace, package volume will continue to grow. We will deploy and maintain a diverse suite of package sorters and material handling equipment to optimize processing throughputs. We are in the process of procuring and deploying more than 185 new package sorters as we continue to adjust to the growing package demand.

EXPAND & ALIGN FACILITY FOOTPRINT AND SIZE TO MARKET DEMAND

We will realign our facility footprint and processing capacity to match the changing mix of mail and packages we process for our customers. As part of this realignment, we will procure new facilities, expand space-constrained facilities, and consolidate those that are underutilized.

FIGURE 18: Modernizing Our Operating Plans

LEGACY OPERATING PLAN	OPTIMIZED OPERATING PLAN
Standardized on-size fits all	Standardized framework — locally optimized
Rigid constraints	Optimized for variable inputs, machine sets, product mix
Sub-optimized mail flow and equipment utilization	Optimal alignment to Delivery, Network ,and Market requirements
Unachievable Production Planning and Control	Fully leverage analytic tools and dashboards
Analytic tools and dashboards ineffective	Efficient, predictable, precise performance

Data-driven analytics will inform the optimal configuration of sorting equipment, facility consolidations, and adjustments of processing operations. We will evaluate the remaining facility consolidations that were deferred in 2015 and will strategically implement some of those consolidations where facilities remain underutilized. We will follow regulatory requirements as we realign our processing facilities. To supplement our customers' growing package volume, we are currently evaluating the addition of approximately 45 annex facilities to be placed near processing centers in key locations.

Due to the dramatic decline of flat mail, we will replace flat sorting equipment as appropriate with much needed package processing machines. We will continue to adjust our letter-sorting infrastructure and invest in package sorting equipment in accordance with market needs while continuing to ensure that we will provide timely and consistent service for our customers across all of our product lines.

[32] Recent studies show that prolonged high overtime levels adversely affected employee health and increased the risk of occupational injuries and error. USPS OIG, No. 20-209-R20, Assessment of Overtime Activity (Aug. 25, 2020), at 19. Employees also become dependent on the additional income as a source of their regular pay when overtime levels are constantly high. Id. Moreover, OIG has stressed that the Postal Service must manage its controllable expenses, such as employee overtime, in order to effectively reduce its total operating expenses. Id. at 6. "Given the Postal Service's current financial situation, there is a heightened importance for management to manage and control overtime costs, which ultimately impacts their overall operating expenses." Id. at 9. "If the Postal Service does not adequately staff their operations, management will continue to incur increased operating expenses." Id.

TRANSFORM NETWORK DISTRIBUTION CENTERS TO HANDLE INCREASED PACKAGE DEMAND

Service standard changes will enable us to streamline mail processing to be more efficient and consolidate surface transportation to improve utilization and reach. We will transition our Network Distribution Centers (NDCs) into new Regional Distribution Centers (RDC) focused on regional package acceptance and processing. All 21 NDCs will be transformed into RDCs. Currently, these facilities process Marketing Mail, Periodicals, and packages. We will dedicate these facilities to package processing, enabling us to expand each center's processing windows and reach.

Letter and flat products will be merged into streamlined, shape-based mail flows within our Processing and Distribution Centers (P&DCs). This effort will allow us to increase density in our containers and trucks and facilitate greater use of our ground transportation assets. We will transform 15-20 additional package processing P&DCs to RDCs to ensure that we have national coverage and extended reach. All RDCs will be equipped with additional package processing capability to increase capacity, reliability and reach.

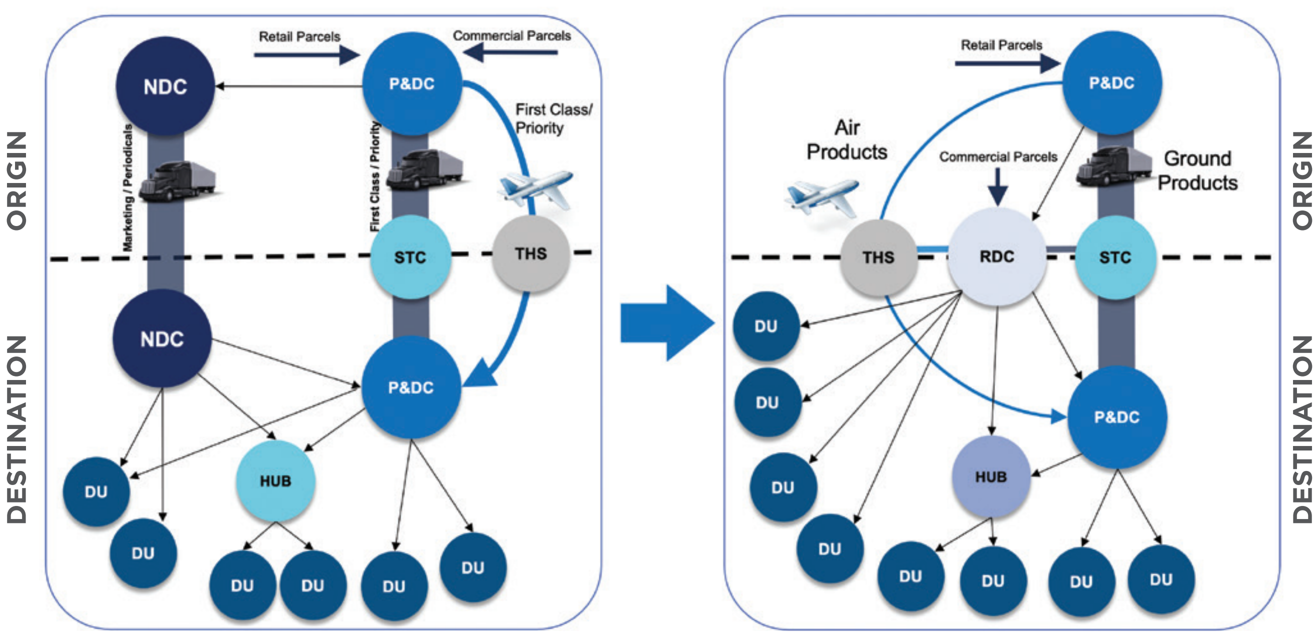
LEVERAGE EMERGING TECHNOLOGIES TO DRIVE PREDICTABLE, PRECISE PERFORMANCE

We will provide new and emerging technologies to our managers and employees to help improve daily and long-term decision making. We will utilize intelligent workload planning, real-time management visibility, sensor technology, and predictive modeling, among other tools to enhance operational performance.

ENHANCED PRODUCT TRACKING

We will leverage technology to provide world-class visibility and tracking of mail and packages in near real-time as they move through our integrated system. We will make significant improvements in the quality of our tracking data to dramatically improve precision and efficiency in our core functions. We will additionally be able to provide our business senders with improved insights into their mail and shipping movement to the consumer. Better tracking data will also power products such as Informed Delivery and other digital engagement with residential receivers of mail and packages.

FIGURE 19: Redesigned Network Distribution Center Network



Fully Optimized Surface and Air Transportation Network

Disciplined management of our updated operating plans, coupled with the service standard adjustments, will allow us to fully optimize our surface and air transportation network.[33] We will leverage real-time, actionable, and predictive insights to prevent underutilized transportation. As the processing network evolves, we will consolidate our network and eliminate redundant trips. We will also shift volume from an unreliable and costly air network to a better managed surface network.

FIGURE 20: Our Vision for the Network

CURRENT NETWORK	FUTURE NETWORK
Late dispatch due to misalignment with Processing Operations	Timely dispatch and alignment with Processing Operations
Redundant surface network and trips	Consolidated surface network
Under-utilized surface trips	Surface trips fully utilized
Over-burdened air network	Reduced reliance on air network

A REDESIGNED SURFACE TRANSPORTATION NETWORK

We will capitalize on the strength of our surface network and design high performing, lower cost, efficient, and reliable surface transportation capable of moving more volume by doing the following:

- Optimize our long-haul and two-day surface transportation to increase service reach, enable efficient surface routes, increase capacity utilization, and achieve our operating plans.
- Eliminate the need to rely on extra and late trips.
- Optimize local truck routes.
- Adopt performance-based highway contracting.

REDUCE AIR TRANSPORT AND IMPROVE CARRIER MANAGEMENT

We will methodically shift a proportion of First-Class Mail and First-Class Package Service volume from air transport volume to surface transportation. Although air transport will carry a lower percentage of our volume, there are also significant opportunities to improve our use of third-party carriers that currently transport mail and package volume by air. We will do this by diversifying the mix of air carriers and enhancing carrier contract management.

DEPLOY STATE-OF-THE-ART LOGISTICS PLATFORM

We will deploy a state-of-the-art platform for end-to-end execution of a unified logistics operation. Using this platform, we will transform our transportation operations by managing both inbound and outbound trips, integrating supplier and carrier collaboration tools, and driving high performance across our carrier base with near real-time visibility. We will also implement an advanced tool for carrier solicitation and contract management to promote a seamless process to solicit and engage carriers.

Best-in-Class Delivery Operations

The Postal Service is first and foremost a delivery organization, and the leader of the "last mile." Our delivery network is unparalleled, given that we

[33] USPS OIG, No. 20-144-R20, at 1 (finding that the "Postal Service has opportunities to optimize its transportation network and improve service performance.").

are the only delivery service provider that reaches every home and business in the nation. In FY2020, we delivered to 160 million delivery points six days a week (and sometimes seven), travelled 1.34 billion miles, over 238 thousand routes using 255 thousand delivery vehicles. To become the preferred delivery service provider—while building our brand and customer loyalty—we will improve our professionalism, efficiency, visibility and earn trust in every community we serve.

DRIVE OPERATIONAL PRECISION, OPTIMIZE DELIVERY UNITS AND MODERNIZE ROUTE STRUCTURE

We will increase operational precision at the unit, route, and delivery point level to provide the most efficient, consistent, and affordable last mile delivery services. We will improve our delivery unit footprint to align with emerging market demand. We will optimize delivery units to create capacity for additional revenue growth and provide the businesses we serve with greater access for local entry of their shipments. We will also streamline carrier functions to maximize the time carriers can directly serve our customers delivering their mail and packages.

INVEST TO BEST EQUIP OUR CARRIERS

We will make investments in people, technology, and systems to renew our delivery presence and best equip our carriers to perform their duties in all conditions. Delivery platforms and technology will be modernized to better use data and analytics to drive precision in operations. We will equip our carriers with state-of-the-art mobile devices to promote efficient and safe carrier operations and to provide enhanced digital services to our customers.

ACCELERATE DEPLOYMENT OF NEW SMALL PACKAGE SORTING SYSTEMS TO DELIVERY UNITS

As e-commerce grows, so does the package volume entered directly at last-mile delivery units. To help improve delivery efficiencies, we will deploy more automated package sorting equipment to our delivery units to support the growth in destination entry packages for businesses to connect to local communities.

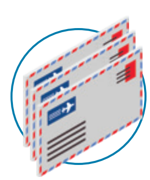
FIGURE 21: Size and Scope of Postal Service Delivery Network (Annual)

160 Million
DELIVERY POINTS SERVED

1.34 Billion
MILES TRAVELED
to deliver mail

231,579
ROUTES TRAVELED
to deliver mail

207,945
DELIVERY VEHICLES
used to deliver mail



136.5 Billion
TOTAL MAIL VOLUME

141,900
COLLECTION BOXES
in use by the Postal Service

Invest in New Delivery Vehicles

As part of the most dramatic modernization of our vehicle fleet in three decades, we will invest in 50,000 to 165,000 Next Generation Delivery Vehicles (NGDV) over the next 10 years. These vehicles will include advanced safety and comfort features and can be equipped with modern drivetrain technology, contributing to our organization's commitment to environmental sustainability. The new vehicle fleet will increase delivery efficiency by providing additional loading and cargo space, and provide a safer, more reliable environment for our carriers. Additionally, to ensure flexibility in our fleet and to meet ongoing needs, we will continue to make use of commercial-off-the-shelf (COTS) vehicle acquisitions.

$40 Billion

OUR PLANNED 10-YEAR INVESTMENT in people, tools, training, and infrastructure. This includes an immediate investment in modernizing the Postal Service fleet of vehicles.

Importantly, with the right level of Congressional support, we can commit to a majority of the Postal Service's delivery fleet being electric within ten years and a fully electric fleet by 2035. We welcome support from Congress that advances the goal of a Postal Service vehicle fleet with zero emissions and the necessary infrastructure that will be required to support it. An additional investment of approximately $8 billion is needed to electrify our delivery vehicle fleet to the maximum extent that is operationally feasible. We will be communicating our estimate of vehicle mix for our first order to the supplier in July 2021 to be followed by the delivery order in February 2022. This historic investment is a key part of our broader strategy to transform our financial performance and customer service over the next ten years through significant investments in people, technology, and infrastructure.

NGDV DESIGN AND VALUE PROPOSITION

The NGDV is a purpose-built platform that provides the latest safety systems to protect our carriers, a flexible powertrain to demonstrate our commitment to sustainability, increased cargo capacity for more efficient delivery of packages, and telematics for predictive maintenance and operational benefits.

Based on lessons learned from testing and continued feedback, key features for NGDV design were formulated with carrier safety and ergonomics in mind, including:

- Large cargo capacity designed to meet future package growth.
- Walk-in cargo design.
- Right-hand drive configuration to allow for curb-line deliveries.
- Ergonomic design for ease of delivery.
- Improved delivery efficiency.
- Air conditioning.
- Latest safety features.
- Latest in telematics data & information.

The Postal Service awarded Oshkosh Defense a 10-year contract in February 2021 to launch the multi-billion-dollar modernization of the delivery vehicle fleet aligning with our priority to improve customer service by enhancing the efficiency of our operations. Oshkosh Defense, based in Oshkosh, WI, will finalize the production design of the NGDV—a purpose built, right-hand-drive vehicle for mail and package delivery—and will assemble between 50,000 and 165,000 vehicles over the 10-year contract. Our NGDVs are expected to begin appearing on carrier routes in 2023.

FIGURE 22: NGDV Feature Highlights

GREEN COMMITMENT

We have selected a vehicle platform that can support two drivetrain alternatives. Our contract with Oshkosh allows the vehicles to be ordered with a modern and efficient internal combustion engine (ICE) or an environmentally friendly battery electric vehicle (BEV) drivetrain. The Postal Service is firmly committed to electric vehicles and elected to fund the production design, assembly tooling, and factory start-up costs to support the production of both vehicle types in parallel. We are committed to a minimum quantity of ten percent BEV and are positioned to increase this quantity. The first order of production quantity vehicles will be placed in February 2022. With appropriate funding to offset the higher vehicle costs and provide the charging infrastructure, we can deliver on a vision to electrify our fleet. The immediate imperative is to our carriers—to provide a safe and ergonomically designed delivery vehicle. In order to achieve this and infuse new vehicles as quickly and efficiently as possible, a phased approach is recommended.

Sustainability is a core commitment of the Postal Service. As we invest in new vehicles and technology, we will champion sustainable and environmentally-focused solutions.

A Modernized Post Office Network

We operate the nation's largest retail network, with more than 31,000 Post Offices and approximately 58,000 retail business partners, in all communities large and small. More than 95 percent of the American population have a Post Office within five miles of where they live, and 99 percent of the population is covered within a 10-mile radius.

WHAT OUR RESIDENTIAL CUSTOMERS SHOULD EXPECT:

- **Six days of mail delivery to over 160 million addresses and seven days of package delivery in many parts of the country**
- **95 percent or higher of all mail and packages delivered on-time, at all times of the year**
- **More digital and mobile tools and better tracking**
- **More convenient services and offerings at Post Offices and online**

TRANSFORM RETAIL LOCATIONS INTO GO-TO DESTINATION CENTERS

Our Plan is to invest approximately $4 billion in our retail units to provide a world-class customer experience with improved retail training, modernized uniforms, refreshed lobbies, and expanded self-service and digital options. As part of this modernization effort, we will provide local businesses with access to expert shipping and mailing solutions consultants, and enable them to quickly move and market their products through our ubiquitous network of retail locations.

ALIGN RETAIL NETWORK TO MEET EVOLVING CUSTOMER NEEDS

We will align retail footprint, hours, and services to meet evolving customer demands. We will continually evaluate operations at our retail facilities to ensure that services are cost-effective while also providing adequate community access. We will continue to bind the local community and the nation together with affordable and convenient access to the products and services that serve the communities best. Building on the success of our past efforts to evolve our retail network while continuing to fulfil the needs of our customers, we will further align Post Office hours of operation to local use. We will also:

- Evaluate and consolidate low-traffic stations and branches of city Post Offices into nearby full-service retail Post Offices.

- Expand access and services based on market demand.

The Postal Service will request advisory opinions from the PRC concerning our retail network realignments.

"Our Plan is to invest approximately $4 billion in our retail units to provide a world-class customer experience with improved retail training, modernized uniforms, refreshed lobbies, and expanded self-service and digital options."

EXPAND PUBLIC TRUST SERVICES

We will partner with all levels of government to engage and provide services for citizens. We will leverage our trusted brand to expand identity services such as passport services, fingerprint capture, biometric data capture, in-person proofing and notary services. We will become the storefront for government services and generate new revenue and additional foot traffic into our retail facilities. We will become a one-stop shop for a wide range of government services.

RETAIL HUBS FOR LOCAL BUSINESS GROWTH

Through our Post Office network, we will connect local businesses to their community and beyond with shipping and mailing solutions. We will provide small businesses a second storefront to elevate their brand and services in the local community such as pop-up kiosks. We will offer our unparalleled retail network for package returns with convenient features such as printing, packing, pick up, and package-less returns. We will improve parcel locker services to meet increased e-commerce customer needs.

An Organization Structured for Success

To successfully fulfill our universal service mission, we designed a high-performing organization with greater line of sight from strategy to business outcomes. The Postal Service has implemented two phases of a structured approach to redesigning our organization—in August 2020 and in November 2020. The Postal Service initiated the third and final phase in March 2021; and is on track to complete this last phase of the organizational realignment by the summer of 2021.

The Postal Service created three core operating units: Retail and Delivery Operations, Logistics and Processing Operations, and Commerce and Business Solutions.

- **Logistics and Processing** - Process and move mail and packages efficiently to the delivery units, meeting determined standards.

- **Retail and Delivery** – Accept and deliver mail and packages efficiently with high level of customer satisfaction.

- **Commerce and Business** – Fully utilize our infrastructure to enable growth.

It also centralized the administrative support functions into Headquarters, which enabled the core operating units to focus on driving

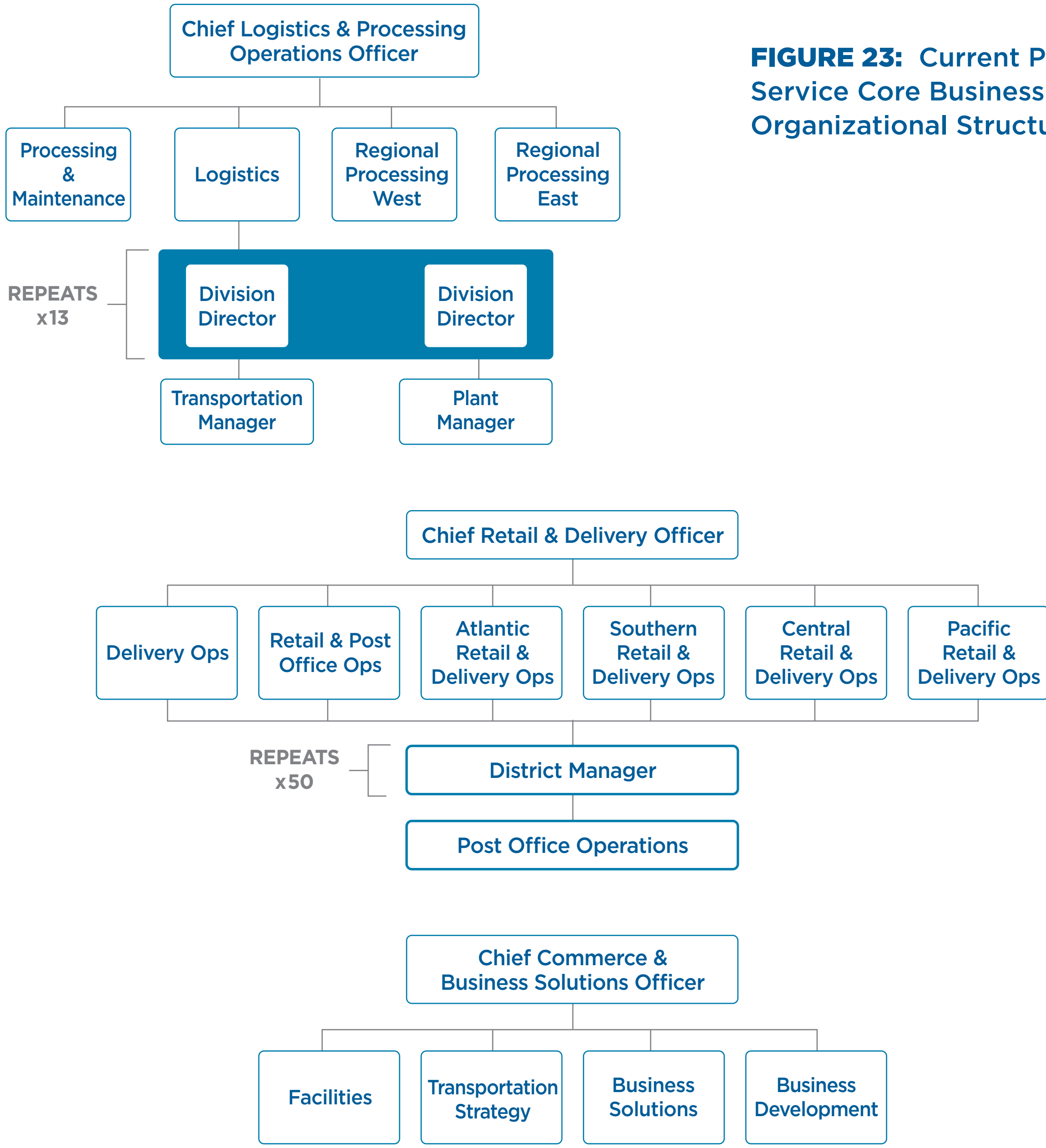
WHAT OUR EMPLOYEES SHOULD EXPECT:

- **Significant investment in training, tools and technology**

- **A more stable career path and an organizational structure that provides greater opportunity**

- **An improved workplace that advances a culture of diversity, inclusion, and acceptance throughout our organization**

FIGURE 23: Current Postal Service Core Business Units' Organizational Structures

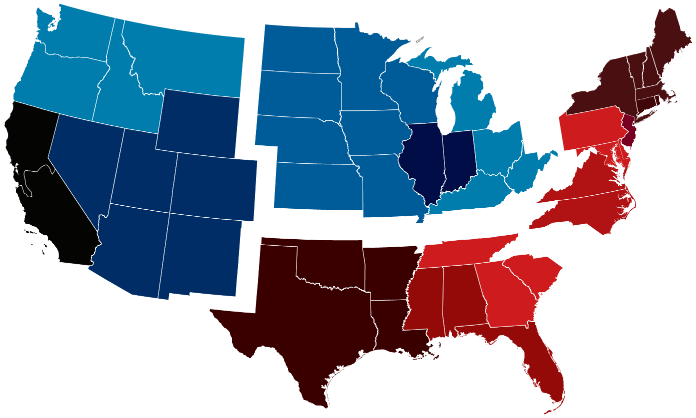


operational precision doing what the Postal Service does best: collect, process, and transport mail and packages. This organization design drives greater line-of-sight accountability and streamlined decision making for administrative functions and provides greater focus on supporting core business operations.

As a part of the ongoing structural changes, additional realignments were made within the three core business operations to provide economies of scale and administrative cost savings.

- **Retail and Delivery Operations:** Two headquarters organizations—Delivery Operations and Retail & Post Office Operations—will oversee four operational areas (Atlantic, Southern, Central and Pacific). Within the four Retail & Delivery Areas, 67 Postal Districts have been consolidated to 50 Districts. New District territories closely align to state boundaries. Districts align with the communities the Postal Service serves and provide familiar boundaries for employees, customers, and stakeholders.

FIGURE 24: New Field Operations Structure



- **Logistics and Processing:** Two headquarters organizations—Logistics and Processing & Maintenance. The operations are divided into two processing regions with 13 divisions and four logistics divisions, each geographically aligned with Retail & Delivery areas, with a total of 13 divisions shared across the regions. No divisions or regions span across more than one area.

- **The Commerce and Business Solutions** organization has been aligned around four key functions. **Business Solutions** fully utilizes our digital, physical, and logistics infrastructure to develop innovative solutions for customers' evolving shipping needs. **Business Development** cultivates strong operational relationships with shipping customers to drive long-term growth. **Transportation Strategy** drives an efficient and reliable transportation network, with a focus on improving contract systems, processes, and performance to drive an operationally precise network. The **Facilities** group maintains and leverages our real estate infrastructure to maximize opportunities.

The administrative support functions were aligned to their respective Headquarters organizations and will be redesigned enabling the three core business functions to better fulfill our essential mission of delivering for the American people.

A Stable and Empowered Workforce

Our people are our greatest asset, and our success depends on investing in their future. We want to be an "employer of choice" that hires, develops, and retains the most capable and diverse employees. Our plan focuses heavily on improving our collaboration and engagement within the workplace and strengthening the employee experience through the following measures.

PROMOTE CAREER DEVELOPMENT AND EMPLOYEE RETENTION

We will provide an engaging workplace that supports employee development and retention through the following strategies:

- Cut non-career employee turnover by half.
- Expand programs that support career planning, expanded training and self-development, and opportunities for growth, advancement, and promotion.
- Improve and expedite the hiring process.
- Build and retain a diverse pipeline of candidates through enhanced employee development, strengthening succession planning and improved retention strategies.
- Implement programs that improve the non-career employee experience.
- Elevate front-line leadership capabilities.

PROMOTE DIVERSITY AND EQUITY

Diversity has been a long-standing value and tradition of the Postal Service. We have grown alongside this country and within our communities, and our workforce is representative of the diverse communities we serve. At the direction and under the guidance of the Postmaster General, the Postal Service has established an Executive Diversity Council (EDC). The EDC consists of a diverse group of C-suite leaders, supported by a National Diversity Steering Committee.

- The EDC will advise, assist and recommend on diversity and equity matters and champion initiatives to build Postal Service leadership and organizational capabilities.
- An area of focus for the EDC will be increased diversity in leadership positions through development programs.
- Other key areas of focus include recruitment and hiring, strengthening succession planning and increasing cultural awareness. The EDC launched in FY2021 and will lead the promotion of increased diversity and inclusion of culture, thought and action.

Diversity and equity are core commitments of the Postal Service—we will advance a culture of diversity, inclusion, and acceptance throughout our organization.

ENHANCE EMPLOYEE SAFETY AND WELLBEING

Throughout these organizational changes, the Postal Service will continue to work collaboratively with our unions and management associations to support managers and bargaining unit employees as we continue to foster safety as a core value throughout the organization.

We will continue to implement and enhance effective safety programs to foster an environment in which safety is prioritized in all aspects of completing our essential mission. We will build upon current high-performing safety programs to create the safest and healthiest environment possible for our employees. This includes:

- Updating our Safety Intervention and Recognition Program to reflect the new structure and provide insight into best practices and areas of opportunity to address risks and hazards at all levels. We will work collaboratively to ensure that safety features and concerns are addressed in every business decision to include new equipment, new vehicles or changes in work practices.
- Enhancing the safety Counseling at Risk Employees (CARE) Program and integrating it into our automated HR system in order to provide actionable data for enhancing facility level safety concerns and the employee experience.
- Continuing to empower employees to identify, record and report safety concerns in real time with the goal of reducing all accidents (motor vehicle and industrial).
- Communicating safety and health information to the workforce.

By providing these tools and resources, we will continue to encourage employees to play a more active role in creating a safer work environment for themselves and their peers. These efforts to create a safer and healthier workplace will improve employee engagement and availability, enhance customer service, and reduce total operating expenses.

Pricing Strategies Aligned with Organization and Marketplace Needs

IMPLEMENT NEW PRICING AUTHORITIES

The PRC's new rules on market-dominant prices allow above-CPI price increases on the basis of certain factors, including declining density (pieces per delivery point) and retirement-related amortization costs. We will apply judicious and prudent strategies to optimize revenues and contribution within applicable regulatory constraints.

BETTER UTILIZE COMPETITIVE MARKET PRICING

We will conduct a review across the breadth of our postal products and services to determine opportunities to drive higher revenues based on organizational and market needs. As one example, sales of Post Office Boxes (PO Boxes) generate approximately $1 billion in annual revenues. We maintain two pricing tiers for PO Box services: competitive market prices and market dominant prices.

Because our ability to utilize competitive market pricing is based on the PRC's determination of the availability of competitive alternatives in the defined geographic markets, we will petition the PRC to expand the number of PO Boxes that are defined as competitive. In areas where we are authorized to implement competitive PO Box pricing, we also will add new features, such as street-style addressing. We will also holistically review our pricing strategy with regard to our package products, and more appropriately optimize our prices.

Legislative and Administrative Framework Aligned to Organizational Needs

We will continue to seek legislative and administrative actions to address unwarranted retiree health benefit and pension funding obligations. These actions will eliminate an estimated $57 billion in liabilities over the next 10 years, without reducing the benefits received by our employees or retirees under existing law.

WE REQUEST CONGRESS REQUIRE THE INTEGRATION OF MEDICARE WITH POSTAL SERVICE-SPECIFIC HEALTH PLANS AND ELIMINATE PRE-FUNDING OBLIGATIONS IMPOSED BY PAEA

- Under our proposal, health plans specific to the Postal Service would be established within FEHBP. These plans would be fully integrated with Medicare. Postal retirees would then have Medicare as their primary payer and FEHBP as their secondary payer. This strategy aligns with the practice of nearly every state and local government and private-sector entity that still offers RHB to Medicare-eligible retirees.
- To protect the financial interests and health care relationships of current retirees who may not have enrolled in Medicare, only current employees would be required to enroll in Medicare Parts A and B when they retire and become eligible for Medicare.
- Medicare Part D would be implemented through an Employer Group Waiver Plan (EGWP) so that our retirees and employees can benefit from subsidies for prescription drug benefits.
- The existing requirement to prefund RHB would be eliminated. This requirement is not imposed on private or public entities.
- OPM would be directed to calculate RHB liability only for those employees and retirees currently eligible to receive RHB (vested liability).
- These legislative changes would drastically reduce or eliminate our unfunded RHB liabilities. They would also significantly reduce our expenses and improve our net income.

WE WILL REQUEST THAT THE ADMINISTRATION CORRECT THE LONGSTANDING, UNFAIR ALLOCATION OF CSRS BENEFITS FOR LEGACY POST OFFICE DEPARTMENT EMPLOYEES

- The Administration should require OPM to use a simple and fair method to apportion government contributions to CSRS annuities for employees who transitioned to the Postal Service with prior creditable service at the pre-1971 Post Office Department.

"By implementing the full breadth of this plan, within three years we can begin to operate on a financially self-sustaining basis and improve service performance dramatically by reliably delivering 95 percent of all mail and packages on time pursuant to achievable delivery standards."

— **Louis DeJoy**, Postmaster General and Chief Executive Officer

CONCLUSION

With benefits coming from strong growth in new revenue and cost improvement initiatives, judicious implementation of the new regulatory price cap authorities, better optimization of our pricing strategy for our competitive products, and rational legislative and administrative changes to retiree benefit funding rules, our Plan provides a comprehensive, balanced approach to revitalize the Postal Service. However, we will only be able to achieve our financial stability and service excellence goals if we successfully implement the full breadth and totality of the plan elements.

Among the many aspects of our future transformation, pricing flexibility and a reset of service standards provide the foundation to rebuilding our operating model and enabling the organization to achieve service reliability and excellence, reduce costs, and grow our revenues and relevance. These interdependencies occur throughout our Plan, in which the many smaller parts lead to larger, beneficial outcomes. These include improvement in on-time delivery and precise, efficient operations, and a modern organization that supports its employees and provides affordable products, services and solutions attuned to the needs our residential and business customers, and America's communities.

Our plan is foundationally based on preserving our universal service mission—which includes reaching every delivery point and providing the nation with six days of mail and seven days of package delivery —and playing a larger and more valued role for our customers and the nation.

In the near term, we recognize that the continuing impacts of the COVID-19 pandemic and years of underinvestment severely impacted our performance during the 2020 holiday season. Therefore, this plan commits to quickly improving service performance and earning back the trust and support of our stakeholders as we move forward.

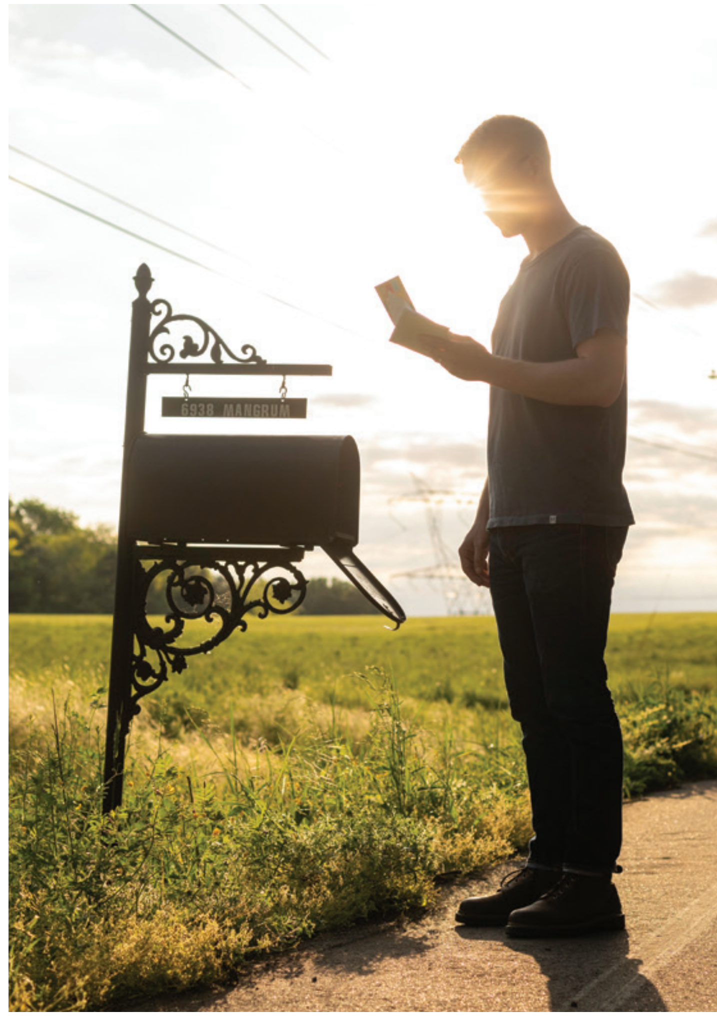
Additionally, we never forget for a moment that the Postal Service is a public institution, and that we have responsibilities to a wide range of internal and external stakeholders. We look forward to discussing this Plan and its many strategies to create a future for the organization that exceeds the needs of the public, our residential and business customers, America's communities, and our employees. As we move forward, we will work closely with our stakeholders through sustained dialogue and partnership.

We will also adhere to legal, statutory, and regulatory requirements as we implement the initiatives within this Plan. These processes will provide opportunities for stakeholder input and engagement. In particular, the Postal Service will:

- File a request for an advisory opinion from the PRC prior to implementing any initiative that constitutes a "change in the nature of postal services on a nationwide or substantially nationwide basis," as required by statute (39 U.S.C. 3661).
- Adhere to all applicable regulations governing the implementation of any initiative, including those enacted by the PRC as well as internal regulations enacted by the Postal Service.
- Adhere to all applicable collective bargaining and consultation requirements.

In addition, as the Postal Service implements the initiatives in this Plan, we will remain in full compliance with any court orders that may be in effect, and we will keep the Administration and Congress fully informed of our progress.

Most importantly, in the years to come, we will continue to have a meaningful impact in the daily lives of the American public—more valued and



used more often at every home and business. We envision our carriers delivering more packages, collecting more returns, and providing more solutions on the ground to drive commerce and connect our communities. We will strengthen the mail channel, providing greater value for senders and receivers. At every touchpoint with our brand—in our Post Offices, at our entry units, on our digital platforms, and at the point of delivery—we intend to create excellent experiences that build value and deepen the loyalty of those we serve.

We hope you will agree that our Plan provides an important path forward for an organization in crisis—and positions the Postal Service to successfully meet the evolving mailing and shipping needs of the nation. We look forward to working with you to achieve this worthy goal.

Exhibit A to APWU/USPS-1/13
PRC Docket No. N2021-1

APPENDIX

Appendix A. 10-Year Base and Plan Financial Projection Scenarios and Assumptions[34]

USPS 10-Year Base Case Outlook: $160 Billion Net Loss

We began with a base case 10-year financial projection to illustrate our financial condition if we do not: (i) increase operational efficiencies; (ii) use the PRC new price cap on market dominant products; (iii) grow revenue from our competitive products; and (iv) restructure retiree liability funding requirements. This base case forecast was developed using our institutional economic methods to project volumes and revenues and our standard cost forecasting model to project expenses. Figure 25 contains some of the key input assumptions. This methodology is consistent with that used for previous forecasts for our annual Integrated Financial Plan, 5-year strategic plan and other publicly released forecast documents.

In this base case, we project that in FY2030 total mail volume (excluding packages) will be approximately 75 billion pieces, a decrease of 37 percent (approximately 45 billion pieces) from FY2020. This decrease is attributed to continued adoption of digital alternatives to business transactions, advertisement and communications and is consistent with the trend we have experienced over the last decade.

We project that in FY2030, total package volume will be approximately 6.6 billion pieces, an increase of seven percent (approximately 424 million pieces) from FY2019 pre-COVID-19 levels, but below the volume achieved in FY2020 due to COVID-19. The flat growth rate from FY2019 to FY2030 is attributed to 1) a reduction of the increased package volumes in FY2020 and FY2021 as the impact of the COVID-19 pandemic

[34] Our results of operations may be impacted by risks and uncertainties, many of which we cannot control or influence, and may cause actual results to differ materially from those currently contemplated in this plan. These risks include, but are not limited to, the effects of COVID-19 on our business, financial condition and results of operations. Forward-looking statements contained in this plan represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as “may,” “will,” “could,” “expect,” “believe,” “plan,” “estimate,” “project” or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report.

FIGURE 25: FY2021 revenue and expenses and FY2021 Integrated Financial Plan (IFP) targets, FY2021 – FY2030

PRICE ASSUMPTIONS	• FY2021 prices at base plan levels prior to PRC ruling • FY2022 – FY2030 Market Dominant prices increase at CPI based on PRC regulations in effect in FY2020 • FY2022 – FY2030 Competitive prices increase at CPI+1 percent
WORK HOUR ASSUMPTIONS	• 100 percent capture of earned work hour declines due to volume decline • Mix of Tier 1 / Tier 2 / non-career workers assumes that non-careers are hired up to work hour cap, then Tier 2 hired to replace Tier 1 workers lost to attrition up to the amount needed to fulfill workload requirements • Overtime rates assumed to be the same as FY2019 levels
INFLATION ASSUMPTIONS	• General and COLA increases taken from contracts and Global Insight inflation projections • General increase of 1.25 percent (career) and 2.25 percent (non-career) assumed when contracts expired • Non-personnel costs (transportation, supplies and services and other) based on Global Insight inflation projection, generally ranging from 2 percent to 5 percent per year

begins to diminish, 2) the loss of market share due to our inability to make the investments necessary to compete with other package delivery companies as they increase delivery densities across more geography due to the post COVID-19 volume growth, and 3) the ongoing insourcing of delivery operations from competitors and major e-commerce retailers. This trend is consistent with the period prior to the start of the COVID-19 pandemic when we experienced flat or declining volumes.

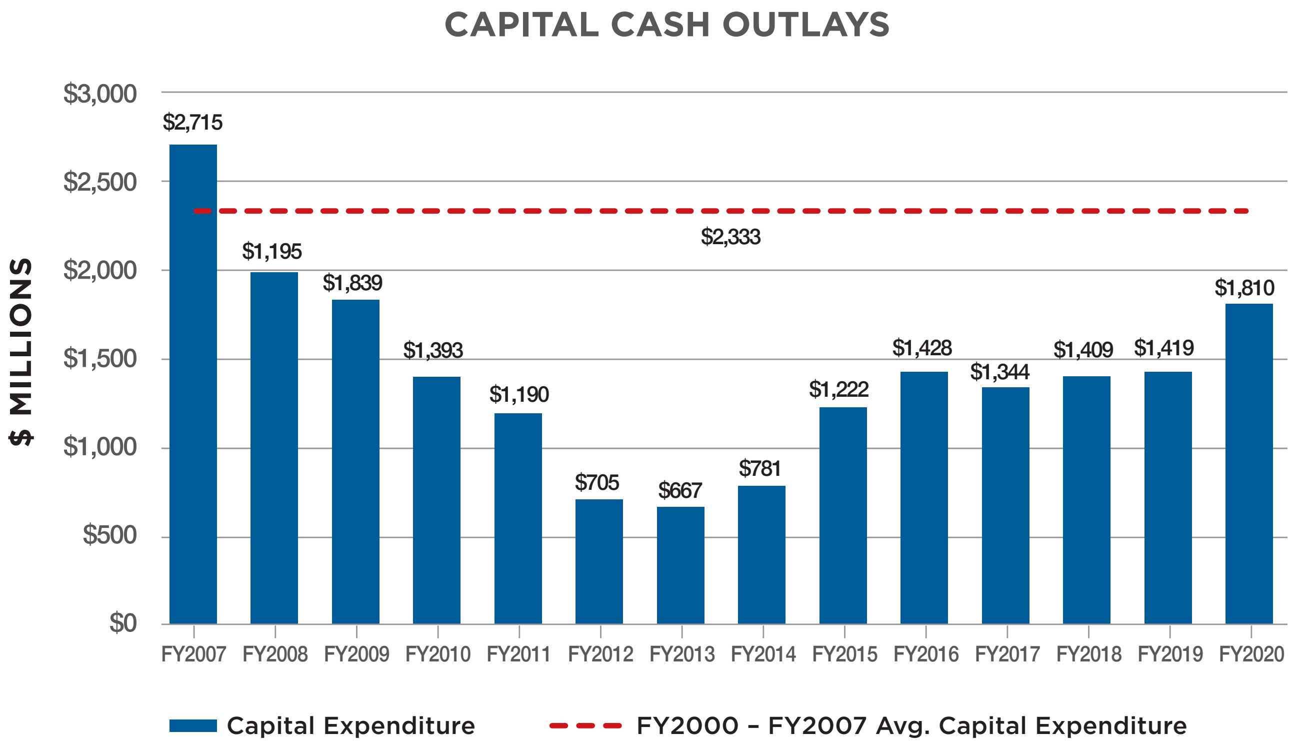
We project prices over the forecast period to increase on market dominant products at CPI and competitive products at CPI+1 percent. Taken together these inputs produce flat revenue over the forecast period.

Unfortunately, total expenses are expected to grow at 1.8 percent per year. This growth in expenses is the result of wage growth consistent with the terms in existing union contracts, cost inflation for federally mandated benefits and non-personnel costs as per inflation projections provided by Global Insight, and the additional cost of serving approximately one million additional delivery points per year.

It is important to note that the base case expense projections assumes that we will capture 100 percent of the work hours associated with projected volume declines, which equates to a reduction in annual hours of 162.7 million by 2030 or $48.7 billion in cumulative cost savings. Achieving this will require extensive management efforts to capture these work hour savings and will have to rely primarily on process improvements that capture reductions in overtime and absorb attrition, since the base case does not enable optimum investments to modernize and maintain efficient infrastructure and equipment. Failure to achieve these reductions would make our financial results worse than those shown here.

Our cash projection assumes we will repay existing debt as it matures with no additional borrowing.

FIGURE 26: Capital Expenditures from FY2007 to FY2020



By statute, we can borrow $3 billion incremental debt per year up to a maximum statutory level of $15 billion. The projection also assumes that we will defer social security tax payments of $0.6 billion for the first quarter of FY2021 and make repayments on FY2020 and FY2021 deferred social security taxes of $0.9 billion annually in FY2022 and FY2023.

Capital investments are an essential part of maintaining and improving our retail, processing, transportation, and delivery networks. From FY2000 to FY2007, we averaged $2.3 billion per year in capital cash outlays. However, since FY2008, we have been forced to substantially curtail our investments because of our financial challenges and have averaged $1.3 billion per year, as shown in Figure 26. This has led to significant underinvestment in our equipment and facilities, leading to a significant deterioration of, in particular, our vehicle fleet and retail facilities.

The level of capital expenditures in the base plan is projected to the pre-FY2007 average of around $2.5 billion per year over the next decade. However, given the deteriorated state of our facilities, equipment, and vehicles, this will not be sufficient to make the necessary modernizations in delivery vehicles, package processing equipment and facility renovations that are needed to move our business forward. It is particularly important, given shifts in our product volume, that we can make necessary adaptations and improvements to our infrastructure.

Our network was largely designed at a time when the volume of packages was much smaller than it is today, while the volume of mailing services was much higher. As package volumes grow, we must adjust our operations to ensure we have the facility and machine capacity to process and deliver that volume in an efficient, effective, and timely manner. This is critical if we are to be a viable participant in the highly dynamic package delivery marketplace.

As shown in Figure 27, the result of maintaining the status quo is a financially unsustainable organization. Net losses are projected to increase throughout the 10-year period, yielding a cumulative loss of $160 billion and a cash deficit of the same size.

FIGURE 27: USPS 10-Year Net Income Outlook for the Base Case Scenario

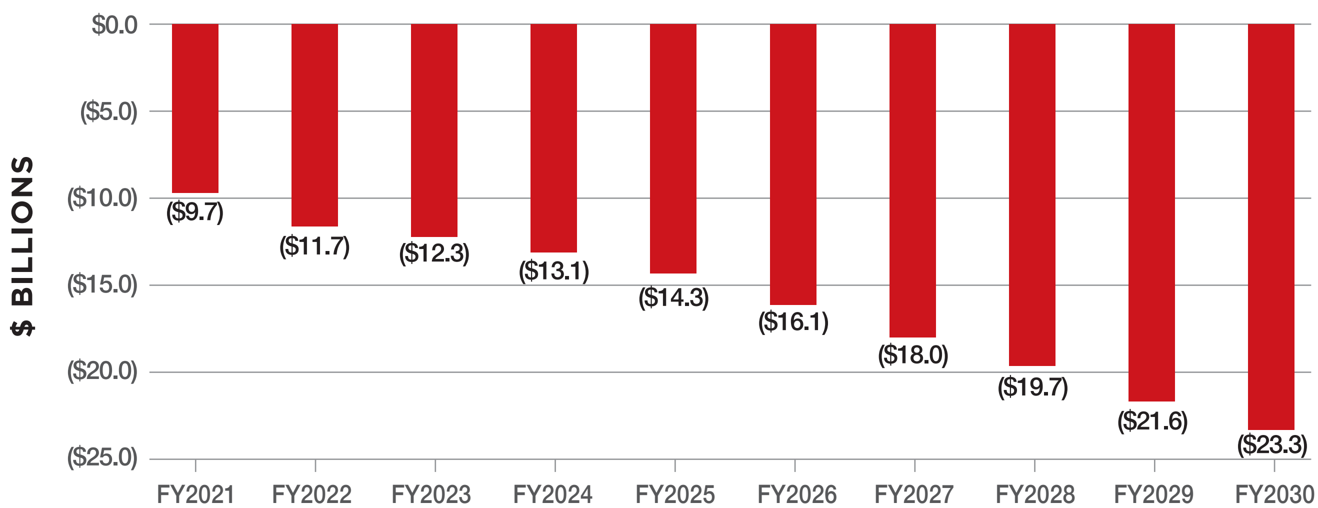


Figure 28 provides additional detail for our projected financial results for FY2021–FY2030 absent additional efficiency initiatives or changes to legislation and regulations that were in place at the end of FY2020. As shown, we estimate that by FY2022 we will have inadequate cash flow to meet all financial obligations, including year-end, lump-sum retiree health benefit (RHB), Federal Employee Retirement System (FERS) and Civil Service Retirement System (CSRS) payments.

Under this status-quo forecast by FY2024, we would not have cash to operate even if we were to continue to default on RHB normal cost and RHB, FERS and CSRS amortization payments and fully exhaust our borrowing authority. If we receive and use the full $10 billion in funding from the CARES Act, this would delay our operational insolvency by just over one year.

Estimates of future net income and liquidity in the base plan are of course subject to considerable uncertainty. We will work to reduce work hours and restrain wage growth within the confines of collective bargaining agreements. Reductions in non-personnel expenses, particularly transportation, depend on our ability to negotiate with a large number of suppliers and contractors while such resources are in high demand. Future business environments may or may not favor negotiations for competitive rates. Furthermore, our business, like any other, is subject to adverse economic shocks. Unlike most businesses, however, we are expected by both the government and citizens to operate as usual even in the event of severe adverse shocks, which limits our ability to temporarily scale down or shutdown operations, as many private sector companies can choose to do.

While reasonable people may disagree on particular assumptions, the overall conclusion is inescapable: the status quo is not sustainable and unless we undertake a comprehensive plan to address our challenges, the Postal Service as we know it cannot survive.

10-year Financial Projection for the Postal Service Delivering for America Plan

The strategies and initiatives outlined in this plan represent our commitment to achieve service excellence, realize cost savings and revenue growth, modernize postal infrastructure, and enhance our employees' wellbeing.

FIGURE 28: The Postal Service Base Case 10 Year Financial Projection

(Billions)	Actual	Actual	Forecast										
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	10 Yr Total
Total Mail and Package Volume	142.6	129.2	116.0	113.5	111.5	107.6	103.7	98.5	95.1	90.6	87.2	82.6	1,006.4
Market Dominant Revenue	46.9	42.5	39.4	38.9	38.6	37.9	36.9	35.7	34.9	34.0	33.1	32.2	361.6
Competitive Revenue	24.4	30.8	31.5	29.9	31.1	32.5	33.6	34.7	35.9	37.3	38.4	39.4	344.2
Total Revenue	$ 71.3	$ 73.2	$ 70.9	$ 68.8	$ 69.7	$ 70.4	$ 70.5	$ 70.4	$ 70.7	$ 71.2	$ 71.5	$ 71.6	$ 705.8
Controllable Expenses [1]	74.7	77.0	76.5	76.3	77.8	79.2	80.4	82.0	84.0	86.1	88.2	89.9	820.6
Controllable Income (loss)	(3.4)	(3.8)	(5.6)	(7.5)	(8.1)	(8.8)	(9.9)	(11.6)	(13.3)	(14.9)	(16.8)	(18.3)	(114.8)
RHB Normal Cost Actuarial Revaluation	*(0.2)*	*(0.2)*											
RHB Amortization	*0.8*	*0.8*	*0.9*	*1.0*	*1.1*	*1.2*	*1.3*	*1.4*	*1.5*	*1.6*	*1.7*	*1.8*	*13.5*
Workers' Comp. Fair Value Adj. and Other Non-Cash Adj.	*2.2*	*1.6*											
FERS Amortization	*1.1*	*1.3*	*1.3*	*1.3*	*1.3*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*12.3*
CSRS Amortization	*1.6*	*1.8*	*1.8*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	*2.0*	*2.0*	*2.0*	*2.0*	*19.2*
Net Income (Loss)	$ (8.8)	$ (9.2)	$ (9.7)	$ (11.7)	$ (12.3)	$ (13.1)	$ (14.3)	$ (16.1)	$ (18.0)	$ (19.7)	$ (21.6)	$ (23.3)	$ (159.8)
Debt [2]	$ 11.0	$ 14.0	$ 11.0	$ 10.0	$ 10.0	$ 9.0	$ 9.0	$ 8.3	$ 8.3	$ 8.3	$ 7.0	$ 7.0	
Year-End Cash (no default) (Unrestricted and Restricted)	$ 9.2	$ 14.7	$ 2.0	$ (14.3)	$ (27.1)	$ (41.9)	$ (56.2)	$ (72.9)	$ (90.9)	$ (110.5)	$ (133.1)	$ (156.9)	
Liquidty			$ 6.0	$ (9.3)	$ (22.1)	$ (35.9)	$ (50.2)	$ (66.2)	$ (84.2)	$ (103.8)	$ (125.1)	$ (148.9)	
Cash Flow - GAAP:													
Net Cash Used in Operating Activities	$ 2.5	$ 4.4	$ (7.7)	$ (12.3)	$ (10.4)	$ (11.3)	$ (12.0)	$ (13.6)	$ (15.3)	$ (17.2)	$ (19.1)	$ (20.8)	
Net Cash Used in Investing Activities	$ (1.4)	$ (1.8)	$ (2.0)	$ (3.0)	$ (2.4)	$ (2.5)	$ (2.3)	$ (2.4)	$ (2.7)	$ (2.4)	$ (2.2)	$ (2.9)	
Net Cash Used in Financing Activities	$ (2.2)	$ 3.0	$ (3.0)	$ (1.0)	$ -	$ (1.0)	$ -	$ (0.7)	$ -	$ -	$ (1.3)	$ -	
Net (decrease) increase in Cash, Cash Equivalents and Restricted Cash	$ (1.2)	$ 5.5	$ (12.7)	$ (16.3)	$ (12.8)	$ (14.8)	$ (14.3)	$ (16.7)	$ (18.0)	$ (19.6)	$ (22.6)	$ (23.7)	
Year-End Cash (Unrestricted and Restricted)	$ 9.2	$ 14.7	$ 2.0	$ (14.3)	$ (27.1)	$ (41.9)	$ (56.2)	$ (72.9)	$ (90.9)	$ (110.5)	$ (133.1)	$ (156.9)	

1) Includes $48.7B savings commensurate with workload decline.
2) Assumes we repay existing debt as it matures with no additional borrowing. By statute, we can borrow $3B incremental debt per year up to a maximum statutory level of $15B.

The incremental impact of each initiative is layered on top of the base plan taking into account any dis-synergies that result from combining various initiatives. The initiatives to improve financial performance fall into three categories: Revenue growth, management cost improvements, and legislative and administrative cost improvements.

REVENUE GROWTH

Through the initiatives described in this Plan, we will actively work to improve both market-dominant and competitive revenues above baseline projections. For market-dominant products, our initiatives are aimed at optimizing revenues and contribution within the constraints of the regulatory system. This will include judicious and appropriate use of the rate authorities provided by the PRC in their recent ruling on market-dominant prices that enables above-CPI price increases related to RHB and pension amortization expenses, increases in unit costs due to mail density loss, and mail classes that do not currently cover their costs.

Initiatives to improve competitive products revenues above the baseline projections include generating additional package volumes through new commercial offerings, leveraging our retail and other assets to expand digital and government services, launching sales and marketing initiatives, and improving service reliability and value. This Plan also includes targeting price increases in market sectors where our current prices are below-market.

The combined impact of additional commercial offerings, pricing and customer-demand initiatives are projected to increase net revenue by $54 billion to $81 billion above the base case projection, as shown in Figure 29. These estimates incorporate volume losses, due to increased prices based on estimated price elasticities.

FIGURE 29: Summary of Revenue Improvement Initiatives

INITIATIVE	KEY ELEMENTS	FY2021 – FY2030 FINANCIAL IMPACT RANGE (LOW TO HIGH $B)[1]
COMPETITIVE REVENUE GROWTH	• Offer innovative commercial services to grow package volumes • Leverage assets to expand digital and government services • Identify opportunities for margin improvement • Align pricing zones to distance traveled	$19 – $29
MARKET DOMINANT PRICE INCREASE	• Implement authority under PRC price regulations allowing above CPI increases for market dominant and underwater products	$35 – $52
	TOTAL FINANCIAL IMPACT	$54 – $81

Notes: 1) The initiative financial impacts shown include a proportional allocation of interest savings achieved from these initiatives. 2) These estimates do not include the reduction of the retirement rate authority from the PRC 10-year review ruling due to the reduction of amortization payments. This has been factored in the legislative and administrative action initiative estimates.

COST IMPROVEMENTS – MANAGEMENT INITIATIVES

As described in this Plan, our infrastructure is both outdated and not properly configured to meet current and projected customer demands. In addition, we have underinvested in facility modernization and have lagged in implementing operational best practices. The initiatives in this Plan will rationalize and modernize mail and package processing, transportation, and retail and delivery networks and improve service reliability and cost efficiency. In addition, these initiatives will result in a rationalized organizational structure that will improve accountability and reduce both personnel and non-personnel expenses. Combined, these initiatives are expected to reduce our projected operational expenses by an estimated $28 billion to $40 billion, as shown in Figure 30.

COST IMPROVEMENTS – LEGISLATION AND ADMINISTRATIVE ACTION REQUIRED

For this Plan to achieve financial sustainability, we need Congress to allow us to integrate our health benefits plans with Medicare on a prospective basis. Virtually all private and public-sector entities that offer RHB require that all eligible retirees enroll in Medicare at age 65 as a precondition for receiving employer-sponsored benefits. In addition, we propose that our RHB liability be estimated based on employees and retirees who are fully vested and eligible to receive RHB immediately upon their retirement. The anticipated savings from this prospective Medicare integration proposal based on vested participants, combined with an elimination of the requirement to prefund, will increase our cash flow while reducing the amount of RHB costs.

We are also asking the Administration to direct OPM to use a fair and simple method of allocating responsibility for government contributions to CSRS annuities for employees who transitioned to the Postal Service with prior creditable service at the pre-1971 Post Office Department. This will lead to a fully funded CSRS pension system and elimination of CSRS amortization payments over the 10-year projection period.

Combined, these initiatives are expected to reduce projected operational expenses by approximately $58B as shown in Figure 31.

FIGURE 30: Summary of Management Cost Savings Initiatives

INITIATIVE	KEY ELEMENTS	FY2021 – FY2030 FINANCIAL IMPACT RANGE (LOW TO HIGH $B)[1]
DELIVERY INITIATIVES	• Maintain six-day mail and seven-day package delivery • Replace NGDV fleet and replace rural POVs • Optimize office and street efficiencies	$10 – $14
TRANSPORTATION INITIATIVES	• Align service standards to maximize surface network capabilities • Optimize long and short haul surface network • Minimize redundant lanes and unplanned late and extra trips • Modernize logistics management systems	$7 – $10
MAIL PROCESSING INITIATIVES	• Reset 24-hour clock to improve service performance • Consolidate mail processing operations • Modernize package equipment and other plant automation	$5 – $7
ADMINISTRATIVE FUNCTIONS INITIATIVES	• Realign HQ, Area, and Districts into 3 national business units • Reduce non-transportation contractor spend	$3 – $5
RETAIL INITIATIVES	• Align hours of operation to customer demands at low traffic Post Offices • Rationalize stations and branches • Modernize retail lobbies to enable expanded digital, small- and medium-sized business and government services	$3 – $4
	TOTAL FINANCIAL IMPACT	$28 – $40

Notes: 1) The initiative financial impacts shown include a proportional allocation of interest savings achieved from these initiatives.

REQUIRED CAPITAL INVESTMENTS

This Plan recognizes that our technological and physical infrastructures require extensive upgrades and includes over $40 billion in capital investments over the next 10 years, which is over $16 billion more than in our base plan. These investments will enable us to modernize the Postal Service, ensure that we can adapt to the changing needs of our customers, provide excellent service for both our mail and package products, upgrade our retail outlets and achieve our universal service mission today and for generations to come.

Figure 32 shows the initial focus of investments that we intend to make. To modernize our delivery operations, the Plan includes investments in modernizing the delivery vehicle fleet and other delivery support technologies to include new delivery unit small parcel sorting systems, carrier delivery scanners, route optimization software and uniform upgrades.

To improve operating efficiency and service quality of the mail and package processing and transportation networks, the Plan includes

FIGURE 31: Summary of Requested Legislative and Administration Actions

REQUESTED ACTIONS	KEY ELEMENTS	FY2021 – FY2030 FINANCIAL IMPACT (LOW TO HIGH $B)[1]
MEDICARE INTEGRATION	• Integrate USPS FEHBP plans with Medicare, calculate the liability based on vested employees and require future retirees enroll[2] • Eliminate RHB prefunding	$44
CSRS ADJUSTMENT	• Correct the longstanding, unfair allocation of CSRS benefits for legacy “Post Office Department” employees[2]	$14
	TOTAL FINANCIAL IMPACT	$58

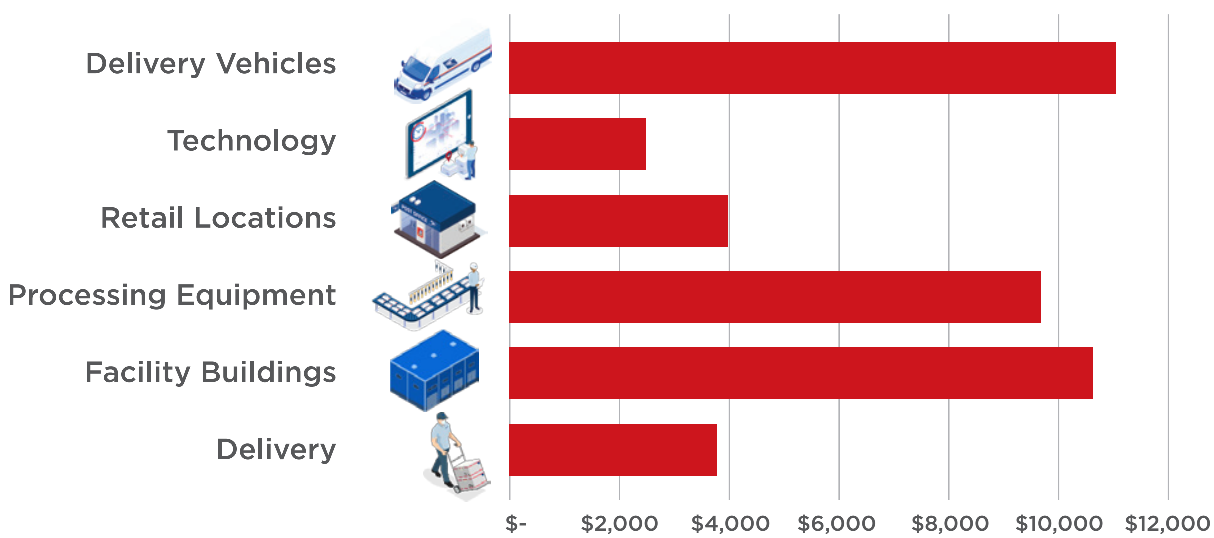
Notes: 1) The estimated financial impacts shown include a proportional allocation of interest savings achieved from these initiatives. Actual savings will depend on final legislative language and OPM implementation. 2) These estimates include the reduction of the Retirement Rate Authority from the PRC 10-year review ruling due to the reduction of amortization payments.

significant investments in creating modern automated processing facilities and transportation networks by accelerating the deployment of parcel automation, autonomous material handling technologies, and advanced transportation management systems.

To transform our Post Offices and retail facilities into convenient and modernized retail destinations, the plan includes significant investments in order to offer expanded government and digital services, enhance our services for small- and medium-sized businesses and expand deployment of contactless retail and locker technologies for mail and package pickup and drop-off.

Our Plan includes investments to improve commercial parcel fulfillment businesses access to our processing facilities and upgrade our Informed Delivery mobile application to enhance its value to commercial mailers and shippers.

FIGURE 32: Critical Strategic Investments in Plan ($ Millions)



This Plan also includes investments in training and development, modernized human resources and financial systems, enhanced cyber security and physical security technologies, and greater energy efficiency and environmental sustainability across our operations. These investments are critical if we are to transform the Postal Service into an organization that can deliver excellent, secure, and cost-efficient services in a financially sustainable manner for generations to come.

ALL ELEMENTS OF THE PLAN ARE REQUIRED TO ACHIEVE BREAK-EVEN NET INCOME, GENERATE SUFFICIENT CASH TO INVEST IN OUR BUSINESS, AND MAINTAIN MODEST POSITIVE LIQUIDITY OVER THE 10-YEAR PERIOD

The financial challenges we face require a multi-pronged approach to achieve financial stability. Only through the successful implementation of all the revenue generation, operational efficiency and legislative and Administrative initiatives in this Plan will we be able to achieve a break-even cumulative net income over the next ten years.

Total mail volumes will be slightly lower in this scenario relative to the base case, due to the impact of higher prices on volumes. Package volumes are projected to grow above the base plan due to improved service reliability and processing efficiencies. Overall, this will result in the higher revenues and net income relative to the base plan.

Expenses will be reduced, due to the combination of operational efficiency improvements, infrastructure repurposing and rationalization, returns on infrastructure investment and legislative reforms that eliminate retiree costs. Although the Plan is projected to enable us to achieve a small positive cumulative net income over the ten years, due to the time necessary to implement these changes, we project net losses for FY2021 and FY2022, with positive net income beginning in FY2023 or FY2024 and every year thereafter, as shown in Figure 33. This figure shows a range of results to reflect the uncertainty of the future business environment.

The successful implementation of all the Plan elements also enables us to maintain positive liquidity over the 10-year period as shown in Figure 34. This figure shows a range of results to reflect the uncertainty of the future business environment.

Finally, Figure 35 presents our financial projections for FY2021 – FY2030 if all initiatives in the Plan are implemented based on the assumed timeline.

FIGURE 33: Net Income Before and After Impact of the Plan ($Billions)

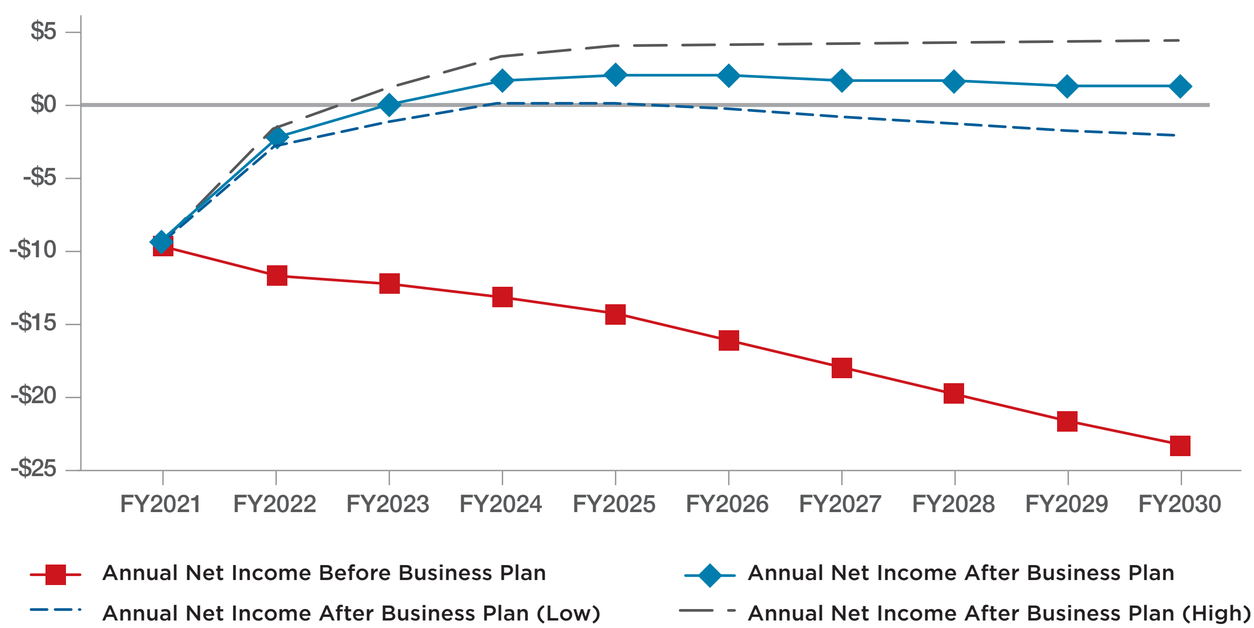


FIGURE 34: Total Liquidity Before and After Impact of the Plan ($Billions)

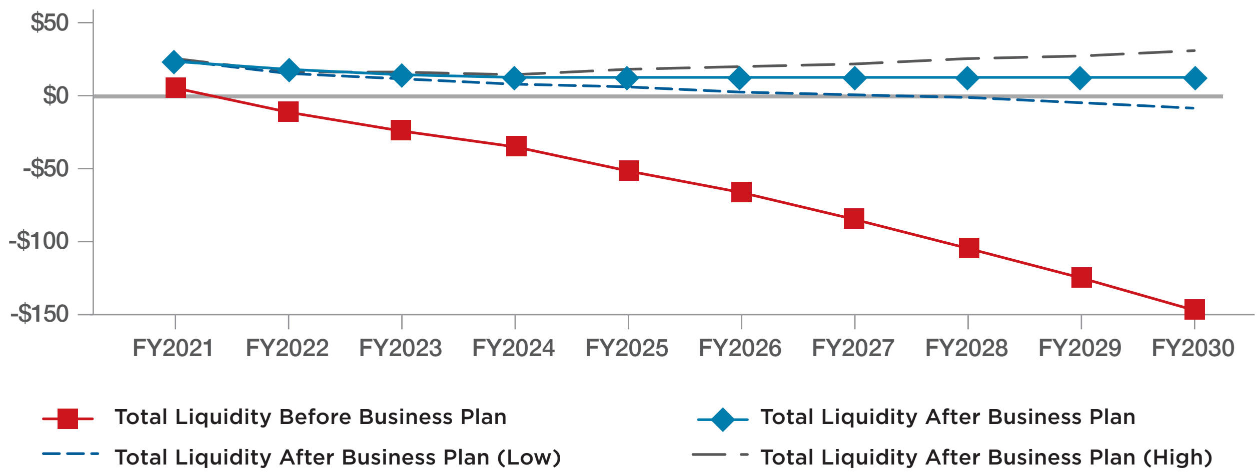


FIGURE 35: 10-Year Delivering for America Projected Profit and Loss Statement – With USPS Initiatives

($ in Billions)	Projected 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021-2030
Market Dominant Revenue	39.6	40.5	40.9	40.8	40.0	39.2	38.5	38.1	37.7	37.2	392.5
Competitive Revenue	31.5	30.9	32.8	34.8	36.4	38.0	39.8	41.8	43.5	45.2	374.6
Total Revenue	$ 71.1	$ 71.3	$ 73.7	$ 75.5	$ 76.4	$ 77.2	$ 78.3	$ 79.9	$ 81.2	$ 82.5	$ 767.2
Salary & benefits	49.5	48.9	48.9	48.9	49.0	49.4	50.2	51.2	52.1	53.0	501.1
FERS normal cost	4.1	4.2	4.3	4.3	4.3	4.3	4.4	4.4	4.5	4.5	43.2
RHB normal cost (Controllable) / Top up payments	3.9	0.8	0.8	0.9	0.9	1.0	1.1	1.2	1.3	1.4	13.3
Transportation	8.7	8.3	8.3	8.3	8.6	8.9	9.2	9.5	9.7	10.0	89.6
Depreciation	1.7	1.7	1.8	2.0	2.1	2.3	2.4	2.5	2.5	2.5	21.5
Supplies & services	3.1	2.9	2.8	2.9	2.9	2.9	3.0	3.0	3.0	3.0	29.6
Rent, utilities & other	5.5	5.5	5.5	5.3	5.1	5.1	5.1	5.3	5.6	5.6	53.5
Controllable expenses[1]	76.5	72.2	72.4	72.6	73.0	73.9	75.3	77.1	78.7	80.0	751.9
Controllable income (loss)	(5.3)	(0.9)	1.3	2.9	3.3	3.3	2.9	2.8	2.5	2.4	15.2
Non-Controllable expenses	(4.1)	(1.3)	(1.3)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(15.1)
RHB Amortization	0.9	-	-	-	-	-	-	-	-	-	0.9
FERS Amortization	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	12.3
CSRS Amortization	1.8	-	-	-	-	-	-	-	-	-	1.8
Net income (loss)	$ (9.4)	$ (2.2)	$ 0.0	$ 1.7	$ 2.1	$ 2.0	$ 1.7	$ 1.6	$ 1.3	$ 1.3	$ 0.2
Debt[2]	$ 11.0	$ 10.0	$ 10.0	$ 9.0	$ 9.0	$ 8.3	$ 8.3	$ 8.3	$ 7.0	$ 7.0	
Year-End Cash (no default) (Unrestricted and Restricted)	$ 20.2	$ 12.5	$ 9.4	$ 6.8	$ 6.4	$ 5.1	$ 5.3	$ 5.6	$ 4.6	$ 4.2	
Liquidity	$ 24.2	$ 17.5	$ 14.4	$ 12.8	$ 12.4	$ 11.8	$ 12.0	$ 12.3	$ 12.6	$ 12.2	
Cash Flow - GAAP:											
Net Cash Used in Operating Activities	$ 0.5	$ (2.8)	$ 1.9	$ 3.5	$ 4.5	$ 4.5	$ 4.4	$ 4.1	$ 3.9	$ 3.8	
Net Cash Used in Investing Activities	$ (2.0)	$ (3.9)	$ (5.0)	$ (5.1)	$ (4.9)	$ (5.1)	$ (4.1)	$ (3.8)	$ (3.6)	$ (4.2)	
Net Cash Used in Financing Activities[3]	$ 7.0	$ (1.0)	$ -	$ (1.0)	$ -	$ (0.7)	$ -	$ -	$ (1.3)	$ -	
Net (decrease) increase in Cash, Cash Equivalents and Restricted Cash	$ 5.5	$ (7.7)	$ (3.1)	$ (2.6)	$ (0.4)	$ (1.3)	$ 0.3	$ 0.3	$ (1.0)	$ (0.4)	
Year-End Cash (Unrestricted and Restricted)	$ 20.2	$ 12.5	$ 9.4	$ 6.8	$ 6.4	$ 5.1	$ 5.3	$ 5.6	$ 4.6	$ 4.2	

1) Includes $48.7B savings commensurate with workload decline.
2) Assumes we repay existing debt as it matures with no additional borrowing. By statute, we can borrow $3B incremental debt per year up to a maximum statutory level of $15B.
3) FY21 includes $10B CARES Act funding

Appendix B: Service Standard Changes for Service Excellence

The Postal Service sets service standards to specify to customers and mailers how long to expect that it will take for a particular piece of mail to be delivered. However, we have not met the current service standards for First-Class Mail in eight years, meaning that we have not been providing our customers with reliable and predictable delivery. The service we have provided for First-Class Mail with a 3- to 5-day delivery standard has fallen particularly short of the mark during that period. The Postal Service proposes to establish service standards that meet customer needs while better reflecting operational realities in an environment characterized by declining mail volumes. By setting attainable standards, we will then hold ourselves to actually meeting those standards on a consistent, sustained basis, thereby ensuring that they establish meaningful customer service expectations.

The current service standards make it difficult for us to provide consistent service, and require us to maintain an inefficient, unreliable, and high-cost transportation network. The end result is an unsustainable situation—failure to provide reliable service, and costs that are higher than they should be.

The specific service standard adjustments we propose address factors that are a consequence of trying to meet the current standards, and that contribute to unreliable service and high costs, by:

- Allowing a higher percentage of volume to be transported by surface transportation rather than less reliable and more costly air transportation.
- Enabling the Postal Service to create an optimized, efficient surface transportation network, with fewer surface trips and better utilization.

To improve reliability and enhance efficiency, the Postal Service proposes to modify existing service standards for First-Class Mail Letters and Flats from a current one-to-three-day service standard (for mail being delivered within the continental United States) to a one-to-five-day service standard. This will also require adjustments to the standards for end-to-end Periodicals (which travels with First-Class Mail). The Postal Service will seek public comment through a formal rulemaking process and will also request an advisory opinion from the Postal Regulatory Commission concerning this proposed change before it is implemented.

FIGURE 36: First-Class Mail (All) Service Standard Performance, FY2012 – FY2020

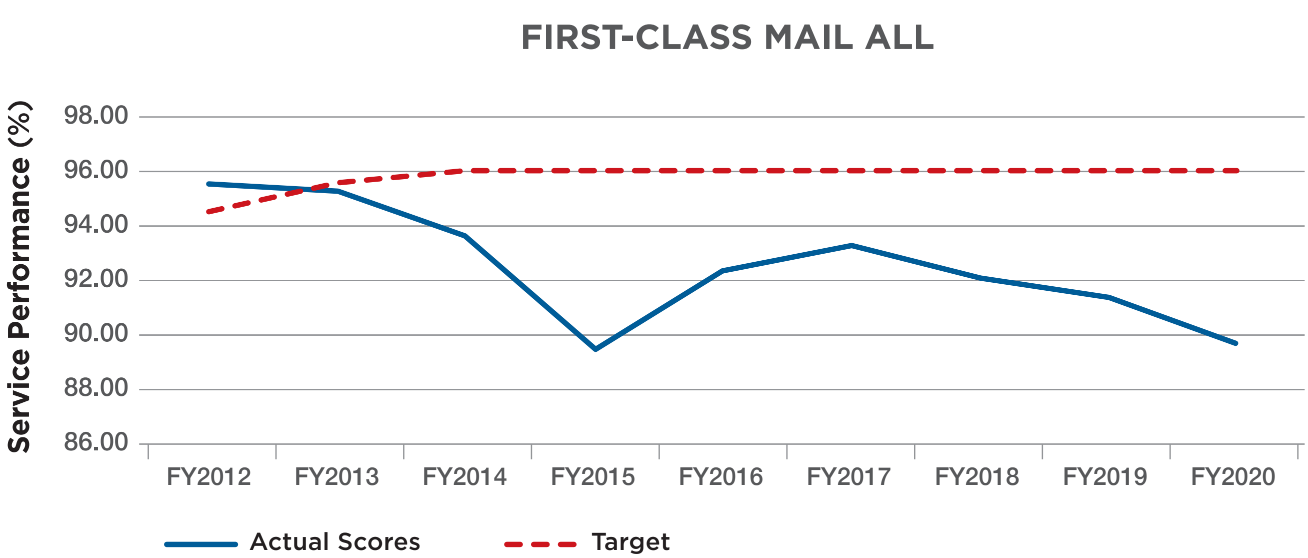
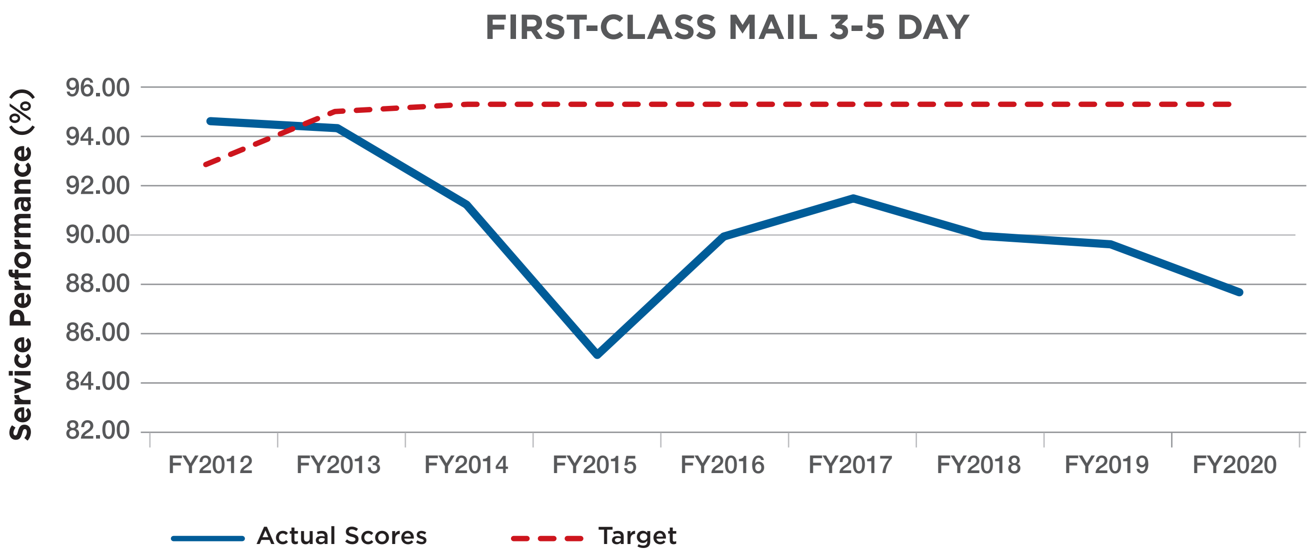


FIGURE 37: First-Class Mail (3-5 Day) Service Standard Performance, FY2012 – FY2020



The following is a summary of the impacts of the new service standard:

- 61 percent of current First-Class Mail volume and 93 percent of current Periodicals volume will stay at its current standard.
- 81 percent of current 2-day First-Class Mail volume will retain its 2-day standard.
- 70 percent of First-Class Mail volume would receive a standard of 1- to 3-days.
- Current First-Class Mail 3-day volume will be subject to 3-, 4-, or 5-day service standard, depending on the distance between origin processing facility and destination processing facility.
- Of the current 3-day volume, 47 percent will remain 3-day, 36 percent moves to 4-day, and 17 percent moves to 5-day.
- First-Class Mail traveling within a local area (with up to a three-hour drive time) would still be delivered within two days. The change will not impact destination entry, overnight mail volume or other local service standards, which will continue to be delivered the next day.
- 43 percent of First-Class Mail volume that is transported through the air will shift to surface transportation.
- For the offshore states and territories, we propose to add a day to mail currently subject to a 3- or 4-day standard, while keeping 5-days as the outer bound. This will align service expectations with operational capabilities in those areas and enable the Postal Service to utilize lower cost air transportation.

In addition, the Postal Service will also propose to adjust the service standards for First-Class Package Service to enable more packages to be moved via the surface transportation network rather than on air transportation. The Postal Service will also request an advisory opinion from the PRC concerning this proposed change before it is implemented.

Changing service standards will facilitate the move of First-Class Mail and First-Class Package Service to a more predictable and reliable network allowing us to achieve a consistent service level of 95 percent on-time delivery against the revised standards. For instance, by moving volume to an optimized surface network, we will reduce the total number of touches for each mail piece and package—improving service reliability and reducing cost.

In addition to achieving greater service reliability, these changes will also enable significant cost savings and improve operational efficiency in our transportation network. For instance, the changes to the standards for Letters and Flats will result in a positive net financial impact of $1.7 billion over 10 years, a number that only takes into account transportation savings.

These changes in putting more mail and packages onto an optimized ground network will also enable us to significantly enhance our mail processing

FIGURE 38: Current vs. Adjusted FCM Service Standard Breakdowns

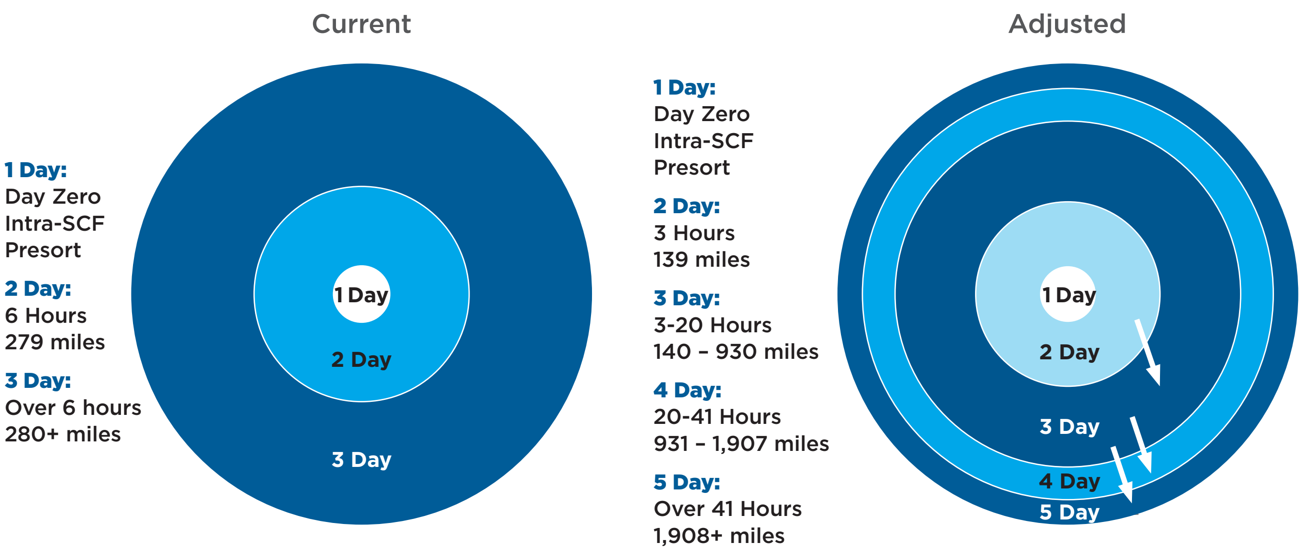


FIGURE 15: Impact of Proposed FCM Service Standard Change – Days

VOLUME: % of Total FCM (letters & flats)
Current Service Standards vs. Proposed with 5-Day

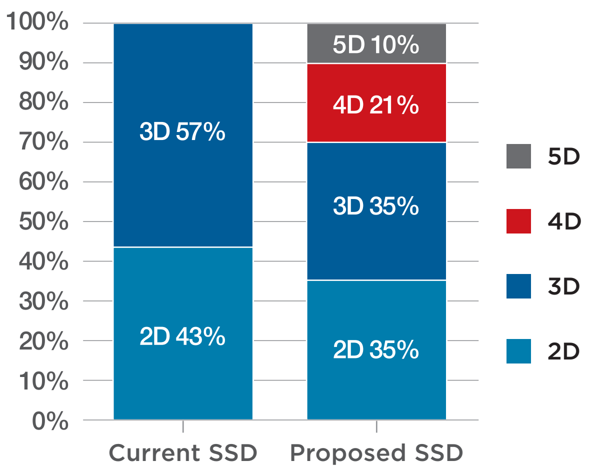
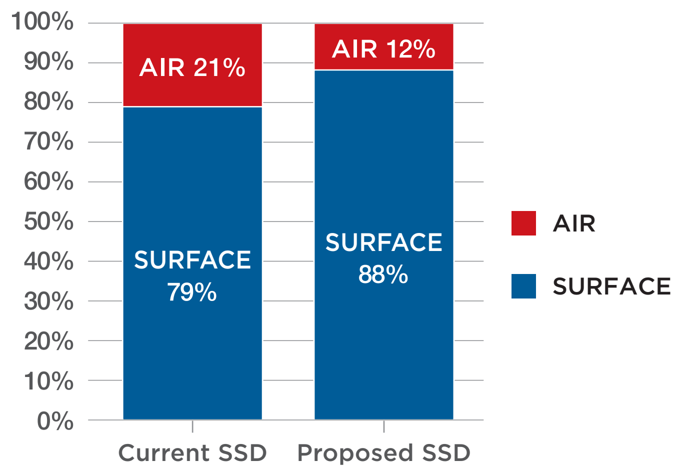


FIGURE 16: Impact of Proposed FCM Service Standard Change – Network

MODE IMPACT: % of Total FCM Volume (letters & flats)
Current Service Standards vs. Proposed with 5-Day



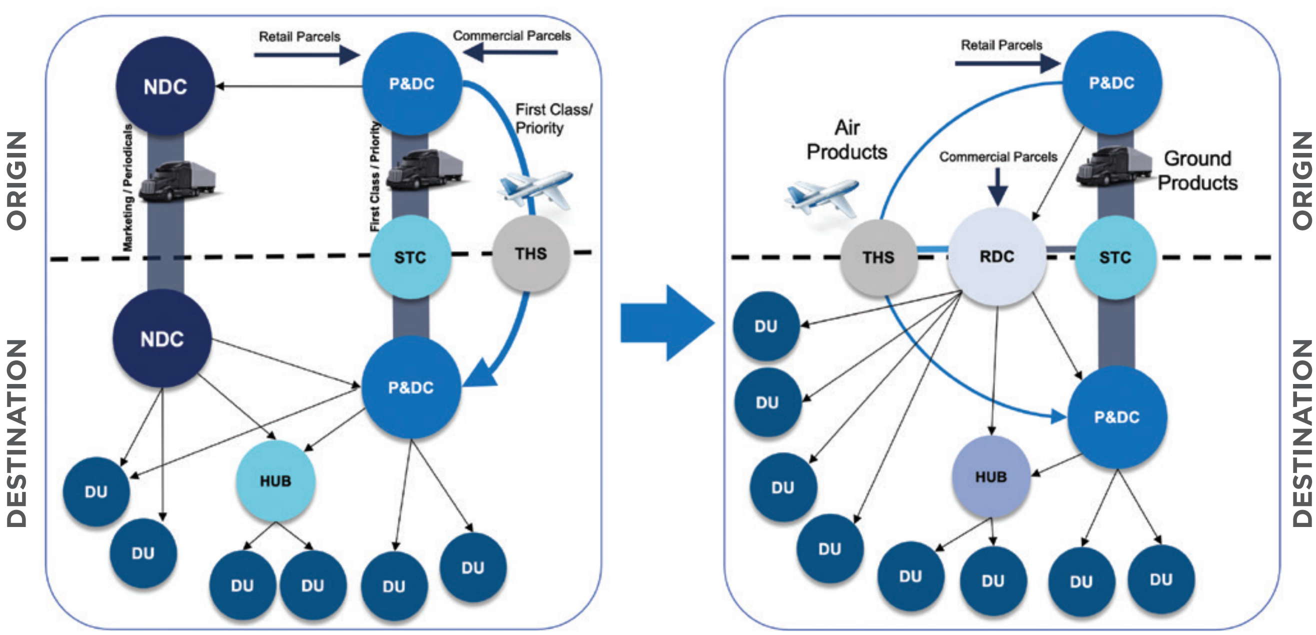
Note: Figures in the charts above are rounded and therefore may not add up to 100%.

network, achieving additional savings. We will be able to create streamlined, simplified shape-based processes, improving efficiency and enabling us to meet our operating plans. For letters and flats, an expanded First-Class Mail network will enable the Postal Service to merge letter and flats processing into a consolidated network, centered on Processing & Distribution Centers (P&DCs). Network Distribution Centers (NDCs), which will be transformed into Regional Distribution Centers (RDCs) to expand reach, will focus on handling parcels. This concept is expected to reduce handlings, improve efficiencies in the processing centers and network, and optimize letter, flat, and package processing for predictable, reliable operations.

FIGURE 39: Simplified Transportation Network Promoting Increased Reliability

	NDC — RDC	PDC
CURRENT	• Marketing Mail letters and flats • Package Services • Periodical sacks and containers • FC Parcels • Priority Parcels	• FC Mail letters and flats • Periodical sacks and containers • Marketing Letters, Flats, Bundles • FC Parcels • Priority Parcels • Priority Mail Express
PROPOSED	• Parcels	• Letters and Flats • Trays, Tubs, Bundles, and Sacks • Parcels

FIGURE 19: Redesigned Network Distribution Center Network



"By implementing the full breadth of this plan, within three years we can begin to operate on a financially self-sustaining basis and improve service performance dramatically by reliably delivering 95 percent of all mail and packages on time pursuant to achievable delivery standards."

— **Louis DeJoy**, Postmaster General and Chief Executive Officer

UNITED STATES
POSTAL SERVICE ®

RESPONSES OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO GREETING CARD ASSOCIATION INTERROGATORIES

GCA/USPS-1. (a) For each First-Class Mail product, as listed on the Cost Segment 14 page of the FY 2020 *Public Cost Segments and Components* report, please provide the piece volume for each mode of transportation shown on that page.
(b) Please confirm that an acceptably accurate per-piece cost for each First-Class Mail product and mode of transportation can be calculated by dividing the Cost Segment 14 cost therefor shown in the FY 2020 *Public Cost Segments and Components* report by the respective piece volumes requested in part (a). If you do not confirm, please state the reason(s) and explain how such a per-piece cost should be calculated.

RESPONSE:

a. The Postal Service does not have a measure of the piece volume for each mode of transportation because no Postal Service data system collects this information. In addition, individual pieces can and do travel on more than one mode of transportation. See USPS-T-1 at 11.

b. Not confirmed; the Postal Service does not collect the piece volumes requested in Question 1(a). In addition, it is unclear what is meant by a “per-piece cost for each First-Class Mail product and mode of transportation.” It is true that, for any given volume data in the denominator (if such data meaningfully exist), one could mechanistically calculate an “air cost per air-transported piece” and a “purchased highway cost per purchased highway-transported piece” as described. However, nearly all First-Class Mail pieces, including those transported by air, receive some level of surface transportation—either purchased highway transportation or Postal Vehicle Service (PVS)—for local transportation from the destination processing facility to the delivery unit. Therefore, the hypothetical “purchased highway cost per purchased highway-transported piece” would not be for pieces exclusively transported on purchased highway transportation.

RESPONSES OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO GREETING CARD ASSOCIATION INTERROGATORIES (REDIRECTED FROM WITNESS WHITEMAN)

GCA/USPS-T2-1. In footnote 2 on page 5 of your prefiled testimony, you state that the Commission's density-related additional rate authority "is designed to be conservative, rather than providing a complete adjustment in all cases."

(a) Please explain fully what is meant by the statement that the density-related additional rate authority "is designed to be conservative."

(b) Please explain fully what is meant by "complete adjustment."

(c) Please explain fully what states of affairs are included in the phrase "in all cases."

RESPONSE:

a. The Commission has characterized the density rate authority formula as "conservative" insofar as it uses unweighted volume, without "targeting a net revenue position . . . or a revenue-weighted measurement of declines." Order No. 5763, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, PRC Docket No. RM2017-3 (Nov. 30, 2020), at 316 & n.400, 354. In other words, the formula does not account for the sort of exogenous fluctuations within the market-dominant mail mix that have had a deleterious effect on the revenue base's ability to cover costs. *See* Order No. 5337, Revised Notice of Proposed Rulemaking, PRC Docket No. RM2017-3 (Dec. 5, 2019), at 75-77.

In addition, instead of choosing one formula and applying it in a result-neutral fashion, the Commission will run the density formula twice, once based on total volume and once based on market-dominant volume only, and utilize whichever result yields less rate authority. Order No. 5763 at 73-74, 98-99, 344

& n.440, 354; Order No. 5337 at 79. Whatever the merits of the Commission's rationale, this approach can fairly be characterized as "conservative."

b. As discussed in response to a. above, the density rate authority formula's use of unweighted volume does not account for changes within the market-dominant mail mix (e.g., when higher-revenue volume declines faster than lower-revenue volume). As a result, it does not completely adjust for the effects of exogenous volume trends on the revenue base's ability to cover the rise in average unit cost.

As for the "lesser of two formulas" approach, the Commission determined that, rather than assuming greater responsibility for covering institutional costs if competitive volumes decline faster than market-dominant volumes, market-dominant mailers should "benefit" from the "protecti[on]" of a more conservative alternative formula in that instance. *See* Order No. 5763 at 78-79. All other things being equal, the result would be that some portion of the density-related rise in overall average unit cost would go uncompensated by either market-dominant or competitive products, hence an incomplete adjustment in that circumstance.

c. See response to b. above.

RESPONSES OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO NATIONAL POSTAL POLICY COUNCIL INTERROGATORIES (REDIRECTED FROM WITNESS HAGENSTEIN)

NPPC/USPS-T3-2: Please refer to page 5, lines 12 through 16, of your testimony, where you state: "The Postal Service also contracts with third-party terminal handling suppliers which act as intermediaries between the Postal Service and the air transportation provider. These terminal handling suppliers prepare mail for air transport and receive mail from the air transportation provider for transfer to the Postal Service."
a. In general, into what cost segment and component are these costs booked?
b. How much were those costs in FY 2020?

RESPONSE:

a. Terminal Handling Services expenses are included in Cost Segment 14, Component 142 (Domestic Air) and Component 681 (Domestic Alaska Air).

b. For FY 2020, the total Terminal Handling Services cost was $494 million.

NPPC/USPS-T3-3: Are the workers who handle mail at Surface Transfer Centers USPS personnel?
a. If so, what craft are they in?
b. Are they tallied as part of IOCS?
c. Are their labor hours accounted for under MODS, NDCs, NonMODS or a combination of the three?
d. Please provide the FY 2020 craft cost for the activities.

RESPONSE:

The Postal Service has contracted Surface Transfer Centers (STCs) and Postal-operated STCs. Postal Service personnel handle mail in the Postal-operated STCs only.

a. Those who are Postal Service personnel are clerks and mail handlers.
b. Yes, these Postal Service personnel are sampled in the In-Office Cost System (IOCS).
c. Network Distribution Centers (NDCs).
d. The Postal Service does not separate labor costs for the employees who are doing STC-specific activities because they are collocated at NDCs with employees doing non-STC work and are clocking into some of the same MODS operation codes as those non-STC employees. In addition, some employees perform both STC and non-STC activities.

RESPONSES OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO POSTCOM'S INTERROGATORIES (REDIRECTED FROM WITNESS WHITEMAN)

PostCom/USPS-T-2-2. Please refer to page 4 of your testimony, where you claim that volume declines in USPS Marketing Mail are "mainly due to the increasing diversion of advertising spending from USPS Marketing Mail to digital media."
a. What other factors have contributed to the decline? If you cite any research or analysis, please provide that research or analysis or references to where that research or analysis is publicly available.
b. Has the Postal Service examined to what degree the failure to meet service performance targets has contributed to the decline in Marketing Mail? If so, please provide that analysis.

RESPONSE:

a. Various other factors have also contributed to volume declines in USPS Marketing Mail. The question cites the sentence of witness Whiteman's (USPS-T-2) testimony on page 4 addressing sustained trends over a relatively lengthy period (from 2006 to 2020). Further down on page 4, witness Whiteman also addresses the more immediate effects of the ongoing pandemic. Apart from diversion of advertising spending from USPS Marketing Mail to digital media and the pandemic, Postal Service demand forecasting models indicate that several additional factors have contributed to recent changes in USPS Marketing Mail volumes. These models include, but are not limited to, postage price, gross private domestic investment (INVR), time trends that capture the lingering effects of the Great Recession, and, in some cases, variables that correspond to election cycles. USPS Marketing Mail consists of several products and shapes and, thus, the demand forecasting models are estimated for commercial and non-profit by product. Hence, each forecasting model has its own set of explanatory variables that are used to measure the impacts of specific factors such as postage price on product volume.

The specific demand equations and a descriptive report are both filed publicly with the Commission annually. In January, the Postal Service publicly files its econometric estimates of demand elasticities. These equations measure the impacts of the various right-hand side variables on volume changes. The latest filing was on January 20, 2021, in accordance with Commission Rule 3050.26. In the January 2021 filing, variables were added that coincide with the quarters in FY 2020 in which the effects of the pandemic became manifest. On July 1 each year, in accordance with Rule 39 3050.60(f), the Postal Service files extensive documentation for those demand equations with a report entitled "Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed with Postal Regulatory Commission." The latest report filed July 1, 2020, provides a descriptive narrative for the demand equations that were filed on January 21, 2020 (for FY 2019, a period that predates the pandemic).

b. No.

Question 15. Please provide projected air and surface costs updated with actual data through the current date for the affected First-Class Mail and Periodicals for FY 2021.

RESPONSE:

A range of projected FY 2021 air and purchased highway transportation costs, updated with actual total costs through April, for domestic First-Class Mail and Periodicals are provided below. Since the FY 2021 volume variable purchased transportation costs are not yet available, the air and surface amounts by product were estimated using a six-step process.

One, the air and surface volume variabilities from the FY 2020 purchased transportation cost model filed with the most recent Annual Compliance Report (ACR) (USPS-FY20-32, workbook CS 14) were applied to the actual and projected costs for FY 2021. This step results in air and surface volume variable costs by quarter for FY 2021.

Two, the FY 2020 air and surface distribution factors by product within domestic First-Class Mail and Periodicals were identified for Q1 and an aggregate distribution factor for Q2-Q4 FY 2020. These can also be computed from the publicly filed purchased transportation cost model filed in USPS-FY20-32.

Three, the relative weight amounts by relevant product were computed separately for Q1 and Q2 using publicly filed Revenue Pieces and Weight (RPW) reports from Q1 and Q2 FY 2021.

Four, air and surface distribution factors by relevant product by quarter were estimated by multiplying the ratio, by product, of its quarterly relative amount of RPW weight in FY 2021 by its corresponding quarterly amount in FY 2020. In formulaic form, the distribution factor for product p, mode (air and surface) m, and period t was the following for Q1 FY 2021 and Q2-Q4 FY 2021.

Quarter 1 – FY 2021

$$DK_{pmt=Q1FY21} = DK_{pmt=Q1FY20} \times \frac{\%RPWWeight_{pt=Q1FY21}}{\%RPWWeight_{pt=Q1FY20}}$$

Quarters 2-4 – FY 2021

$$DK_{pmt=Q2-Q4FY21} = DK_{pmt=Q2-Q4FY20} \times \frac{\%RPWWeight_{pt=Q2FY21}}{\%RPWWeight_{pt=Q2FY20}}$$

An example may be helpful here. In FY 2020, the Q1 air distribution key for First-Class Single-Piece letters was 2.4 percent. According to RPW, the share of total mail weight that came from First-Class Single Piece letters fell to 1.8 percent in Q1 FY 2021 from 2.0 percent in FY 2020. Thus, the estimated distribution factor for First-Class Single-Piece letter air costs in Q1 FY 2021 was $2.4\% \times \frac{1.8\%}{2.0\%} = 2.2\%$. This method assumes that the relationship between a product's distribution factor by quarter by mode remains the same between FY 2020 and FY 2021. Moreover, it attempts to account for quarterly volume changes and for the seasonality of transportation costs because separate distribution factors are applied to Q1 and Q2-Q4 FY 2021 volume variable costs.

Five, the quarterly air and surface distribution factors by product are applied to the actual and projected quarterly air and surface costs.

Six, the air and surface costs by product are summed by class to compute separate FY 2021 costs by mode for First-Class Mail and Periodicals. The range of results are displayed in the table below.

Applying this method, air costs for First-Class Mail are projected to fall between $442 and $475 million, and First-Class Mail surface costs between $568 and $573 million. Air costs for Periodicals are projected to fall between $10 and $11 million, and Periodicals surface costs between $123 and $125 million. Note that these costs are for all First-Class Mail and Periodicals, as the Postal Service is unable to disaggregate costs according to volumes affected and not affected by the proposed service standard change.

Projected Transportation Costs by Mode for FY 2021 for First-Class Mail and Periodicals

FY 2021	Low	High	Low	High
Projected Costs	**Air ($m)**	**Air ($m)**	**Surface ($m)**	**Surface ($m)**
First-Class Mail	$ 442	$ 475	$ 568	$ 573
Periodicals	$ 10	$ 11	$ 123	$ 125

RESPONSES OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Question 1. Please confirm that the Postal Service's proposal provides longer processing and transportation windows for affected mail volumes.

a. If confirmed, please explain how these longer processing and transportation windows do not result in any estimated cost savings in cost segments associated with mail processing.

b. If confirmed, please describe how the longer windows may balance workload and reduce overtime and premium pay.

c. If not confirmed, please explain.

RESPONSE:

Confirmed in part and not confirmed in part. The Postal Service's proposal provides longer transportation windows, but does not provide longer processing windows.

a. Longer transportation windows do not result in savings in cost segments of processing because the segments of transportation and processing are distinct.

b. See responses above. The proposal does not provide longer processing windows, and should not affect processing workload, overtime, and premium pay.

c. The Postal Service's proposal provides longer transportation windows. The planned processing windows were modeled to remain the same; however, the buffer time between the planned mail processing clearance time and the transportation departure time could be increased, in many cases, due to the longer transportation window. This added time could be used to account for variation in mail processing clearance to help ensure all volumes are loaded on the designed transportation. The intent of this proposal is to improve the transportation network from both a cost and reliability perspective. Mail processing window changes are not part of the proposal.

Question 2. Please refer to the United States Postal Service Office of Inspector General, Report No. 21-071-R21, Excessive Wait Times to Accept Commercial Mail Shipments at the Cleveland Processing & Distribution Center, March 10, 2021 (OIG Report No. 21-071-R21).[1] In the report, the Office of Inspector General (OIG) observed gridlock conditions at the Cleveland Processing and Distribution Center on December 11, 2020, December 15, 2020, and December 16, 2020. OIG Report No. 21-071-R21 at 2. Specifically, the plant experienced issues accepting additional mail, including drop shipments, because previously accepted mail had reached the dock doors. *Id*. The OIG found that "Cleveland P&DC management did not communicate the need for a redirect to Postal Service Headquarters timely and, once management implemented the temporary redirect, it was not recorded accurately in the [Facility Access and Shipment Tracking] system." *Id*. Please also refer to United States Postal Service Office of Inspector General, Report No. 21-075-R21, Management of Highway Contract Route Contractor Failures at the New Jersey International Network Distribution Center, March 30, 2021 (OIG Report No. 21-075-R21).[2] In that report, the OIG found that from January 1 to December 31, 2020, the New Jersey International Network Distribution Center had 14,321 late trips, with 11,213 of the late trips being attributed to contractor failures. OIG Report No. 21-075-R21 at 3. Please describe what steps the Postal Service will take in advance of implementation of its plan to address plant issues (such as described above) to ensure the new standards are met.

RESPONSE:

The Postal Service experienced unprecedented package volumes during the holiday period in FY 2021 due to the intersection of the holiday season with the increase in packages linked to the COVID-19 pandemic. The network was unable to support the increase in volume due to insufficient processing and staging space, processing capacity, and transportation capacity. In addition, the pandemic contributed to decreased employee availability, further impacting the ability to manage the increased volumes. These factors converged to create a situation in which facilities, like the New

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[1] Available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2021/21-071-R21.pdf* (accessed May 14, 2021).

[2] Available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2021/21-075-R21.pdf* (accessed May 14, 2021).

Jersey International Network Distribution Center, did not have enough space or capacity to accept and process drop shipments as they normally would.

In order to continue providing reliable service, the Postal Service has addressed capacity issues by acquiring additional space in 46 locations to accommodate First-Class Mail and package volume growth. The Postal Service also purchased 138 additional package sorting machines this year and added over 14,000 permanent positions to its workforce. This will allow it to handle additional volume in the processing and delivery network. The increased space and fluidity will free up needed space for drop shipments.

Similar to what the Postal Service successfully accomplished prior to the pandemic, the Postal Service continues its daily review and analysis of service failures. The analysis allows it to promptly address root causes of process failures including efficiency and opportunity to maximize machine utilization.

The Postal Service is also addressing bottlenecks in its logistics networks by contracting additional Surface Transportation Centers to increase capacity to distribute mail throughout ground networks. The Postal Service performs daily mitigation of its air networks capacity shortfall and has begun its K9 project (using canines to screen packages) to alleviate bottlenecks in moving packages through the commercial air network.

In addition, with respect to contractor failures, the Postal Service applies a five step remediation process that starts with discussion and ends with termination of contract if issues are not resolved timely.

RESPONSES OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

A series of unique events culminated in the delay of the redirection entry in the Facility Access and Shipment Tracking (FAST) system for the Cleveland Processing & Distribution Center (P&DC). Initially, the Cleveland P&DC was expected to resume operations within a week, so the redirection information was not submitted in FAST, though it was communicated via an Industry Alert. However, once the redirect was extended another week, it was entered into FAST. Although the redirect information was entered on Friday, December 11, it was not processed in FAST until the next business day, Monday, December 14. An error in the FAST system was identified on that date, requiring corrections to the program coding on Tuesday, December 15, resulting in the delay of processing the Cleveland entry. As a result, the redirection files were generated on Wednesday, December 16 in FAST to allow appointment scheduling based on the redirects. Due to the unique set of circumstances, the Postal Service believes this was a one-time occurrence and that the redirect process for FAST does not need to be modified.

RESPONSE OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS (REDIRECTED FROM WITNESS WHITEMAN) TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

Question 6. Please confirm that the capacity variabilities reported in Library Reference USPS-LR-N2021-1/NP2, April 21, 2021, Excel file "Transportation Savings- NonPublic" tab "Highway" cells b22 to b24, sourced from Docket No. RM2014-6, Library Reference USPS-RM2014-6/1, are based on surface transportation for all classes of mail. Please discuss whether the capacity variabilities would be lower or higher if the same type of study was done for only First-Class Mail and Periodicals.

RESPONSE:

Not confirmed. The cost-to-capacity variabilities are based upon the relationship between purchased highway transportation capacity, measured in cubic foot-miles and the cost to the Postal Service of acquiring that capacity. They are not dependent upon the classes of mail being mail transported. The cost-to-capacity variability for a given type of transportation would be the same whether the relevant change in capacity (measured in cubic foot-miles) was caused by a change in service or by changes in the amount of transported First-Class Mail, Periodicals, or any other class of mail.

RESPONSE OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS (REDIRECTED FROM WITNESS WHITEMAN) TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3 (Revised June 3, 2021)

Question 7. Please refer to Response to POIR No. 1, question 15. Please provide a detailed calculation of each step referenced in the response, with documentation, links and sources for the FY 2021 projections of air costs and surface costs for First- Class Mail and Periodicals for each amount listed in the table titled "Projected Transportation Costs by Mode for FY 2021 for First-Class Mail and Periodicals". Please provide a similar table with the same documentation for FY 2022, the first full year of implementation.

RESPONSE:

The requested documentation, by step, and sources are provided in the zip file named ***N2021.1.Response.POIR.No3.Q7***, which is being filed within Library Reference LR-N2021-1-26 in this docket to accompany this response. The workbook named ***N2021.1Response.POIR.No3.Q7.FY2021*** contains a separate tab for each of the six steps that were described in the response to POIR No 1, question 15.

At the time that the response was filed to POIR No. 1, question 15, similar projections for FY 2022 had not been considered. In response to this request, a similar, but not identical approach to estimating FY 2022 air and surface costs for First-Class Mail and Periodicals were developed. Two primary factors led to the underlying estimation method being changed for FY 2022: 1) transportation costs are projected for the entire fiscal year and 2) impact of the service standard change needed to be considered because implementation would be expected to occur during FY 2022.

In the accompanying zip file within the library reference, the workbook named ***N2021.1.Response.POIR.No3.Q7.FY2022*** develops and documents the estimation method used. While there are similarities to the method used in FY 2021, there are enough differences that a detailed explanation of the seven-step process used to develop the requested estimates is warranted.

RESPONSE OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS (REDIRECTED FROM WITNESS WHITEMAN) TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3 (Revised June 3, 2021)

One, a range of air and surface volume variable costs for FY 2022 was calculated by applying FY 2020 air and surface volume variabilities to FY 2022 estimated air and surface costs that account for the service standard change. In response to POIR No. 1, Q24, witness Hagenstein (USPS-T-3) provided a range of transportation savings between $175 million and $279 million for FY 2022. The ranges were applied in the same relative amounts as the air and surface savings were estimated ($196.1 M, 70% air; $83.5 M, 30% surface) in the testimony of witness Whiteman at 10-13. The savings ranges were subtracted from the FY 2022 projected air and surface transportation costs that did not account for the service standard change. The result of this arithmetic was a range of total air and surface costs for FY 2022 that accounted for the change in service standards. Lastly, the air and surface volume variabilities from FY 2020 were multiplied by the range of total air and surface costs to compute a range of volume variable air and surface costs for FY 2022.

Two, FY 2020 distribution keys for Air, Inter-SCF, and Other Surface were developed for First-Class Mail, Periodicals, and All Other using the transportation cost model filed in Docket No. ACR2020, USPS-FY20-32, workbook CS14-Public-FY20.

Three, product weights from the Q1 and Q2 FY 2021 Revenue Pieces and Weight (RPW) report were used to compute ratios by product that adjusted the Air, Inter-SCF, and Other Surface distribution factors from FY 2020. For FY 2022, the ratio based on RPW weights for product *p* was the following:

$$Ratio_{pFY22} = \left(\frac{\%RPWWeight_{pt=Q2YTDFY21}}{\%RPWWeight_{pt=Q2YTDFY20}}\right)^2$$

For FY 2021, similar ratios were used, but, for FY 2022, to account for another year of changing mail mix, each product ratio was applied a second time (i.e., the product ratio was squared).

Four, the product ratio from step three was applied to the Air, Inter-SCF, and Other Surface distribution keys from FY 2020. This results in sets of distribution factors that do not add to unity. Hence, the distribution factors were rescaled by taking the ratio of the unscaled key to the composite amount (rescaling was not done for FY 2021, its impact is small but more meaningful in FY 2022).

Five, the scaled distribution keys for First-Class Mail from step 4 were multiplied by the expected air to surface impacts resulting from the service standard change. Hence, the First-Class Mail air distribution factors were multiplied by 0.507 (see Whiteman testimony at 10, 1-0.493=0.507) and the First-Class Inter-SCF distribution factors were multiplied by 1.114 (see Hagenstein testimony at 6, 88%/79% = 1.114). There were no changes made to the distribution keys for Periodicals or for those related to the Other Surface mode. The resulting distribution factors were rescaled by, again, taking the ratio of the unscaled key to the composite amount.

Six, a cost weighted unscaled distribution key was computed using the Inter-SCF and Other Surface distribution keys and costs. Subsequently, the unscaled surface distribution key was scaled so it would add to unity. No changes were made to the air distribution keys with this step.

Seven, the air and surface distribution keys from step six were multiplied by the estimated ranges of air and surface volume variable costs from step one to compute a range of air and surface costs for products within First-Class Mail and Periodicals.

Lastly, the ranges of volume variable air and surface costs were summed by class to develop the estimated ranges of air and surface costs for First-Class and Periodicals.

For FY 2022, this seven step process resulted in estimated air and surface costs for First-Class Mail ranging from $182 million to $186 million and $518 million to $521 million respectively. For Periodicals, the corresponding air and surface ranges were $7 million to $8 million and $93 million to $94 million respectively. The table contains the air and surface ranges of volume variable costs for First-Class Mail and Periodicals for FY 2022.

Projected FY 2022 Air and Surface Volume Variable Costs for First-Class Mail and Periodicals

FY 2022 Projected Costs	Low Air ($m)	High Air ($m)	Low Surface ($m)	High Surface ($m)
First-Class	$ 181.6	$ 186.1	$ 517.6	$ 521.0
Periodicals	$ 7.3	$ 7.5	$ 93.3	$ 93.9

RESPONSE OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO PUBLIC REPRESENTATIVE INTERROGATORIES (REDIRECTED FROM WITNESS CINTRON)

PR/USPS-T1-3(b). Please confirm whether the Postal Service has considered a dropship discount. If confirmed, please provide:

i. An estimated discount;
ii. An explanation of how it was derived;
iii. And any potential cost/revenue impacts.

RESPONSE:

Confirmed in part and not confirmed in part. It is unclear what information is sought in asking "whether the Postal Service has considered a dropship discount." The Postal Service has considered dropship discounts through some dialogue with the industry in the past, but the Postal Service did not pursue offering such discounts in 2021. In the present case, the Postal Service is not seeking an advisory opinion about pricing.

RESPONSE OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO PUBLIC REPRESENTATIVE INTERROGATORIES (REDIRECTED FROM WITNESS WHITEMAN)

PR/USPS-T2-1. Please confirm that the Postal Service considered dropship discounts in its estimation of the cost savings associated with the proposed changes.

a. If confirmed, please discuss whether a dropship discount will be considered in conjunction with this proposal.

b. If not confirmed, please explain why not.

RESPONSE:

Not confirmed.

a) Not applicable.

b) The Postal Service did not consider dropship discounts in its estimation of the cost savings associated with the proposed changes because dropship discounts are not currently available for First-Class Mail.

RESPONSES OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO HUTKINS INTERROGATORIES AND REQUESTS FOR PRODUCTION

SH/USPS-1. Please refer to the 10-Year Strategic Plan, “Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence.” Please refer to these two tables in Appendix A: Figure 28, “The Postal Service Base Case 10 Year Financial Projection” (p. 46) and Figure 35, “10-Year Delivering for America Projected Profit and Loss Statement – With USPS Initiatives” (p. 51).

Please confirm that the volume and revenue projections in Figure 28 (for Total Mail and Package Volume, Market Dominant Revenue and Competitive Revenue) *do not* factor in the volume that may be lost due to use of the new price cap on Market Dominant products and the due to a change in service standards (as discussed in the testimony of Mr. Thress), whereas the revenue projections in Figure 35 *do* factor in these projected losses. If not confirmed, please explain.

RESPONSE:

The volume and revenue projections in Figure 28 (for Total Mail and Package Volume, Market Dominant Revenue and Competitive Revenue) ***do not*** factor in the volume that may be lost due to use of the new price cap on Market Dominant products or due to a change in service standards (as discussed in the testimony of Mr. Thress). Scenario 28 shows the Postal Service’s baseline forecast before initiatives, and so does not factor in the impact of any initiatives.

The revenue projections in Figure 35 ***do*** factor in the volume that may be lost due to use of the new price cap on Market Dominant Products and ***do not*** factor in the volume that may be lost due to a change in service standards. The volume loss from the new price cap on Market Dominant products is included in the volume and revenue forecast which provides the basis for Table 35. However, the volume impact of the change in service standards was included only in the net financial impact of that initiative. The primary impact of the service standards initiative is a reduction in expenses, and so the total financial impact of the initiative – including lost revenue due to volume loss – was factored into the expense and net income projections on table 35.

Due to the inherent uncertainty in attempting to assess the impact of service standard changes on volumes, a range of financial impacts was also used to develop the ranges in tables 30, 33, and 34.

RESPONSES OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS OWENS TO HUTKINS INTERROGATORIES AND REQUESTS FOR PRODUCTION

SH/USPS-2. If the revenue projections in Table 35 do factor in projected revenue losses due to the new price cap and changing service standards, please provide projections for annual mail and package volume with these initiatives, similar to the row for volumes in Table 28.

RESPONSE:

The following table shows the volume projections (in billions) which underlie Table 35:

	Forecast FY2021	Forecast FY2022	Forecast FY2023	Forecast FY2024	Forecast FY2025	Forecast FY2026	Forecast FY2027	Forecast FY2028	Forecast FY2029	Forecast FY2030	10 Yr. Total
	115.9	111.9	108.9	103.9	99.6	93.8	90.0	85.2	81.6	76.8	967.5

However, these volume projections do not include the impact of changes in service standards; as explained in the previous answer, the volume loss in the service standards initiative was factored into the expense and net income projections in Table 35, but was not applied to the total volume which underlies the table or to the revenue forecast in that table.

A full analysis of the specific changes to service standards is available in an Econometric Analysis of Impact of Delivery Service Standards, filed in this docket on April 21, 2021, in library reference LR-N2021-1-5 (note that this report was not completed until after the publication of “Delivering for America”).